

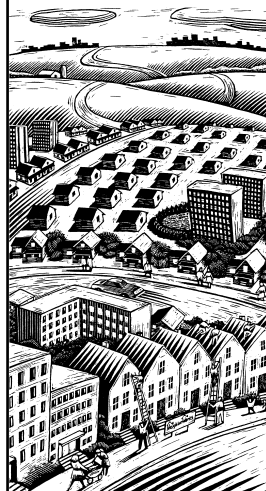
# The **NeighborWorks®** Journal



## **Mixed-Income Housing's Greatest Challenge: Strengthening America's Neighborhoods While Reaching Our Lowest-Income Families**

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Edited proceedings of the Neighborhood Reinvestment  
Corporation Symposium at the Neighborhood Reinvestment  
Training Institute, April 4, 2002, Chicago, Illinois.  
Hosted by the NeighborWorks® Multifamily Initiative



# a message from the executive director

Last year, the NeighborWorks® Multifamily Initiative hosted a symposium on excellence in multifamily housing posing a fundamental question: are we creating our affordable housing stock to be sustainable – affordable, well maintained, economically viable for owners, and socially positive? The day fostered a candid and open conversation among some of the brightest minds in affordable housing. They concluded that sustainability was not supported by much of our policy and practice.

Mixed-income housing has drawn attention as a strategy more consistent with sustained excellence and neighborhood vitality. But what does “mixed income” mean? Should the principles of mixed income be applied differently in different neighborhoods and sub-markets? Can mixed income housing help to solve the affordability crisis by serving families earning under \$7 per hour, who often live at or below the poverty level. Many people are proposing funding tools to support mixed income housing; each is defining it in some specific way. Therefore, mixed income housing seemed an appropriate next topic for the Multifamily Symposium.

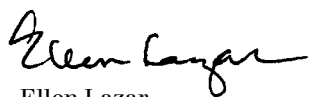
I am proud to present the proceedings of that event entitled “Mixed-Income Housing’s Greatest Challenge: Strengthening America’s Neighborhoods While Reaching Our Lowest Income Families”, which again benefited from leading practitioners from the local, state and national levels. These proceedings offer valuable lessons and inspiring insights into mixed income housing. Overarching themes emerged: Mixing incomes, including households under 30 percent AMI, is not only possible and but positive. However, “mixed income” is absolutely NOT one size fits all. Neighborhood configuration must be the guide to how the property is developed – rather than the subsidy package setting the mix.

We thank our Congressional allocators. Concerned about affordable rental housing, they set-aside five million dollars in Neighborhood Reinvestment’s FY2002 budget so that the NeighborWorks® network could research and experiment with developing mixed-income housing that reaches under 30 percent AMI.

We also thank the Fannie Mae Corporation for their generous financial support, which enabled us to host this event and broaden the discussion of mixed income strategies for neighborhood strength.

I would also like to thank the Neighborhood Reinvestment training department staff who made the symposium so successful as well as Frances Ferguson, who coordinated the event, and the advisors who gave so generously of their time and intellectual capital: Wendell Johns, Conrad Egan, Charlie Wilkins, Michael Bodaken, Patrick Sheridan, Paul Brophy, and Helen Dunlap.

Sincerely,



Ellen Lazar  
Executive Director  
Neighborhood Reinvestment Corporation

The NeighborWorks®  
Journal  
Published as *Stone Soup* 1982–1997.

*The NeighborWorks® Journal* is a quarterly publication of the Neighborhood Reinvestment Corporation. Its intent is to inform and instruct readers about successful strategies, practices, programs and procedures that emphasize a partnership approach to improving the economic and social well-being of families and communities. In addition, its intent is to highlight issues of growing concern to revitalizing communities and to inform readers about the work of the NeighborWorks® network and the Neighborhood Reinvestment Corporation.

The Neighborhood Reinvestment Corporation is a public, nonprofit organization.

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*Journal* submissions are welcome, but it is best to contact the editor prior to submitting any written material. For further information on submitting manuscripts, proposals or suggestions, please contact the editor, Patricia Brown, at (202) 220-2569, e-mail pbrown@nw.org, or at the above mailing address.

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ISSN 0899-0921



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Hosted by the NeighborWorks® Multifamily Initiative.

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**Cover Credit** Brownstones, 1958. Egg tempera on hardboard, 31 1/2 x 37 1/4 in.  
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On April 4, 2002 the Multifamily Symposium on Excellence reconvened in Chicago. Our theme was Mixed-Income Housing's Greatest Challenge: Strengthening America's Neighborhoods While Reaching Our Lowest Income Families.

Charles S. Wilkins of The Compass Group framed the issues we face in mixing incomes as a primary strategy in affordable housing. Then the 250 leaders from housing finance agencies, public housing authorities, non-profit and private sector developers, syndicators, lenders, representatives from HUD and Rural Development, and national policy leaders, broke into five working sessions on different submarkets:

1. High-cost submarkets, such as Boston; San Francisco; Montgomery County Maryland; and specific neighborhoods in many cities;
2. Healthy urban and suburban submarkets, such as Kansas City, suburban Dallas and Cleveland;
3. Blighted urban submarkets;
4. Rural submarkets, from declining agricultural towns to rural areas affected by urban growth to high-cost resorts;
5. Preservation of existing subsidized housing – in any submarket, but which in its existing subsidy faces questions meriting a separate discussion.

Over luncheon, Egbert Perry of The Integral Group spoke from his experience, which includes developing the dynamic mixed income HOPE VI funded Centennial Place in Atlanta, Georgia. Mr. Perry eloquently stressed that income-segregated communities are not the byproduct, but the consequence, of our housing policy.

The full symposium reconvened for two afternoon plenary sessions. First, Paul Brophy moderated a panel that reviewed the conclusions of the five morning sessions. Next, Michael Pitchford moderated four national leaders exploring the implications of our discussions for federal policy. Conrad Egan of the National Housing Conference and the Millennial Housing Commission provided final commentary.

Several themes rang out through the day.

**People of all income levels can live side by side.**

Developers in every market reported that households of different incomes can live together successfully, although it is more expensive and takes more sophisticated management. This flies in the face of the NIMBYism we face every day.

***In blighted neighborhoods***, scale is of particular importance. The public purpose is both housing and the re-establishment of viable neighborhood economics and politics. However, in smaller blighted neighborhoods, when full HOPE VI-scale neighborhood redevelopment is not possible, investment in new rental properties can actually jumpstart the market for both rental and homeownership. Finally, absent entire neighborhood redevelopment, a healthy rental income mix is apt to be 20 to 60 percent Average Median income (AMI).

***In high-cost markets***, obtaining affordability is the essential battle. Here, 50 percent AMI households often earn as much as \$30,000 per year. They are the city and school employees who make any town function!

***In rural areas***, area median incomes are so low that the same \$18 to \$20,000 income family, cannot qualify, because they are “over income.” Differing perspectives were voiced regarding resolving that by tying eligibility formulas to the state (rather than area) medians.

***In healthy submarkets***, a key opportunity is acquisition of existing properties, reserving some units for extremely low-income families. Use restrictions are essential, because these markets are likely to become higher cost over time. Tax-credit rules are a barrier to acquisition rehab, which could provide thousands of low-income units in good neighborhoods, and at a far lower public cost than new construction.

***In preservation***, “decoupling” was called for. Allowing property-based Section 8 to be decoupled and used in other areas would help create a healthier income mix that would benefit the low-income families and the neighborhood.

**The approach to income mixing must fit the neighborhood.** Similarly, income mixing might be achieved by combining single-family and multifamily strategies, each including rental and ownership.

**Our finance and subsidy tools make income mixing harder than necessary.** Because each tool has rigid requirements and definitions, combining these tools is cumbersome and expensive. Everyone cried out for a simpler way of melding subsidy tools and, of course, for more funding. Lots of excellent ideas were articulated on how to use or change the subsidy tools we have to make a better fit.

**Services are essential.** Developer after developer called out the need for service partners and resident service coordinators, when extremely low-income families, particularly those who have not lived in private properties, are part of the mix.

**The local political process is the greatest hurdle of all.** The residents can live together. We can design and operate the property around a diverse resident base. In blighted neighborhoods, achieving this healthy range of incomes does, in fact, begin to reverse blighting from years of over-concentrated poverty. However, finding the sites and obtaining the local approval and support remains the highest barrier. Many successful local strategies were articulated – you’ll read them throughout the proceedings.

Our next multifamily symposium will dig into lessons from these working neighborhoods. Mayors, city managers and county leaders from across the United States who are leading the way in developing new tools for the political process around housing will join in our discussion. It does not make sense for our neighborhoods to be designed by our housing subsidy tools. It does not make sense to segregate poverty and pay the profound price of neighborhood dysfunction. Local dynamics are our next frontier.



# Proceedings of the Symposium

Chicago, Illinois, April 4, 2002

## *Framing Mixed-Income Housing's Greatest Challenges*

**Ellen Lazar**, *Executive Director, Neighborhood Reinvestment Corporation*

**Charles S. Wilkins**, *The Compass Group*

ELLEN LAZAR: Hello, everyone. I'd like to welcome you to our NeighborWorks® Training Institute and to our Multifamily Initiative symposium. Last year, the NeighborWorks® Multifamily Initiative hosted a symposium that asked a question fundamental to affordable housing: Are we creating our affordable housing stock to be sustainable?

We need affordable housing to be excellent over the long term. This excellence must include affordability, good maintenance, economic viability for owners, and a culture of opportunity for residents. This is crucial for everyone involved – residents who need the housing, the neighborhoods who live with the housing and the owners who operate the housing. But, do we design and finance our affordable housing to serve with excellence over the long term?

Last year, five creative thinkers wrote papers addressing this issue. Two hundred and fifty experienced practitioners came together at this Training Institute to consider the questions. Throughout the course of an amazing day, a widespread agreement kept sounding – that we as an industry are not driving towards sustained excellence. Our deals are too tight, and this infects us at every level.

Over the summer and fall, we were delighted to see the themes of that day captured by the Millennial Housing Commission's papers on sustainable excellence. These two papers, authored by Charlie Wilkins, are included in your notebooks. Today, we reconvene this symposium on sustainable excellence, this time bringing together the principal players who are closer to the deal.

Today, we ask another question: How do we create mixed-income housing that can both serve households under 30 percent AMI, and support the long-term health of the neighborhood where it is located? How do developers, subsidy allocators, such as housing finance agencies, public housing authorities and investors, work together as partners to create and preserve the housing, and to influence the next set of housing finance and subsidy tools to support this kind of housing? We think that mixed-income housing is an approach more supportive of sustainable excellence. But, does that mean that it is always the answer?

With the support of Fannie Mae and the added support of our congressional allocators, Neighborhood Reinvestment is delighted to welcome you to Chicago to, again, dig into this thoughtful exchange. Our congressional allocators are concerned about affordable rental housing and set aside an additional \$5 million in Neighborhood Reinvestment's budget this year so that the NeighborWorks® network could research, explore and experiment with funding mixed-income housing that reaches under 30 percent AMI.

I would like to thank Wendell Johns, Barry Zigas and Eric Woods, who are here with us today. I would also like to thank some of the congressional staffers that we have worked with – Wendy Wierzbicki, with Senator Jack Reed's (D-RI) office, Megan Medley, with Representative Robert Aderholt's (R-AL) office, and Jonathan Miller, with the Senate Banking Committee.

I would also like to take a moment to thank Francie Ferguson, who has done an excellent job helping to coordinate and facilitate this meeting, and the advisors who gave so much of their time and intellectual capital to this endeavor: Conrad Egan, Charlie Wilkins, Michael Bodaken, Patrick Sheridan, Paul Brophy and Helen Dunlap – a stellar crew. Thanks to all of you.

To open the day, let me introduce Charlie Wilkins of the Compass Group, a consultant who works with owners, managers, lenders and regulatory agencies on affordable housing policy, finance, asset management, and property management. He also advises HUD's Office of Multi-family Housing Assistance Restructuring on the development and implementation of the Mark to Market program.

First, the housing problem in America involves people under 30 percent of area median income, sometimes called extremely low-income households.

– Charles S. Wilkins

CHARLES WILKENS: I would like to thank Neighborhood Reinvestment and Fannie Mae for sponsoring the symposium. I'd like to say a little bit about Neighborhood Reinvestment's NeighborWorks® organizations and the multifamily initiative. They're doing enormously creative work in multifamily housing – not because people are sitting in an ivory tower pontificating and thinking deep thoughts. It's because they get together periodically with people who have dirt under their fingernails and who are doing deals on the firing line in difficult communities all over the country. The ideas that bubble up from that are really absolutely first-class ideas, and I've been delighted to work with Neighborhood Reinvestment in helping make these things a reality.

It is not possible to do a full review of the mixed-income topic in a short time, so I am going to hit some high spots.

First, the housing problem in America involves people under 30 percent of area median income, some-

times called extremely low-income (ELI) households.

There are 7.4 million households under 30 percent of AMI. We might be serving as many as a third of those with public and assisted housing, which means that two-thirds of them are probably paying too much for housing and are having real problems finding housing. When you hear Barbara Ehrenreich talk about what she found in her book, "Nickled and Dimed," you will get a real illustration of what it's like to try to find affordable housing as a low-wage worker in America.

To the extent we can develop more housing that is affordable to, available to and occupied by extremely low-income households, we will have made a dent in the housing problem in America. This is not to slight all of the other housing problems, but the

problem, statistically, in America, is with those below 30 percent of area median income.

I'd like to draw your attention to a concept that I call minimum feasible rents: Suppose that someone gave us an apartment building. We didn't have to pay for it. We had no debt, no debt service and no equity dividends to pay. How low could we have the rents? The math is pretty easy. You add up the operating expenses, the reserve for replacements, which, by the way, has to be a much bigger reserve for replacements than the ones that we're used to, because there isn't going to be down-stream cash flow and down-stream refinance to be able to supplement it.

So, add up the reserves, big reserve deposit, operating expenses, an allowance for vacancy and an allowance for operating margin or margin of safety, whatever you call it. As it turns out, in seven localities that I've studied for the Millennial Housing Commission, that number is never lower than about



\$350 per unit each month for a two-bedroom apartment. And, it can go up to \$500 or higher, depending on which market you're in. That's not the sort of rents that many people under 30 percent of median area income would find affordable.

One of the questions for us today is this: How do we get the rents down low enough that they're really affordable to people who have the most needs? In some places all you will have to do is pay for the building and eliminate the debt-service cost. In other places, you may need a Section 8 subsidy or something like it. One of the interesting things I've discovered in looking at the materials for this symposium is that Section 8 is not the only way to do rental assistance. When you go to the High-Cost Submarkets session later today, you'll see some materials on the Metropolitan, a development in Bethesda, Maryland, that created a Section 8 subsidy funded by the property itself. It used tax credits and tax-exempt bonds to get the cost of operation down to the point where the property could pay its own Section 8 subsidy for some of its residents. There's some real outside-the-box thinking going on here.

The other thing worth thinking about is this: Suppose 10 years from now we have a million units of housing restricted to people under 30 percent of area median income occupied by those folks, but with rents at minimum feasible. We'd eliminated the debt service cost, and we were only setting the rents as high as they needed to be. That would be a huge improvement over the current situation. The Millennial Housing Commission and the new legislation sponsored by Representative Marge Roukema (R-NJ) are looking at this as one of the potential solutions. I think it's very interesting.

When you think about affordability, it's important not to get caught into a traditional definition. Those of us who have been in the business for awhile are very used to the Section 8 public housing definition. It's 30 percent of a particular definition of income, with no minimum at all or not a very large minimum and without ceiling rents. That's not the only way to approach affordability. As you are in the situation rooms, think about the different ways of doing affordability that would be even better in this kind of mixed-income housing?

One of the insights in studying housing for very low-

income people is that, when they compete with higher-income folks for the same housing, guess who loses? This is not profound, but we don't often think about it. The conclusion I draw from this is that it's really important to think about use restrictions. How do we take units and restrict them so that they are available to people with very low-income people who don't have to compete with higher-income people for those units?

Sustainability is something that Ellen talked about. It's really important. Think about what it would be like if affordable housing didn't have to be bailed out by government every 20 years. It would be a profound change to our business. Every year, our friends in Congress have to do a significant amount to bail out the old stuff before they can start doing new housing. So, in this hypothetical world of the future, all the new money could go into new housing.

Also, it would become useful and worthwhile and economically rational to be an owner. Right now, it's very economically rational to be a consultant, an accountant, a lawyer, a developer and a property manager. But, to be an owner is "five miles of bad road," as we used to say in North Carolina. And, having been an owner representative for the 23 or 25 years of my career, I can tell you that it is hard work today, and the odds are against you. The dice are loaded. It would be a good thing if we could figure out a way to make it worthwhile for people to be long-term owners of this housing.

The framing paper lays out what we were able to discover about what people have already thought, written and concluded about mixed-income housing. Section six of that paper lays out issues that we wanted to highlight for the symposium. Moderators in the situation sessions will be talking through some of these issues. I will highlight a few of them.

First, what are the indications that a mixed-income approach would be particularly useful here? What are the indications that a mixed-income approach might not be such a good idea over here? What could we say to developers and policymakers after the symposium about rules of thumb about where to target mixed-income housing?

Second, how do we pay for it? Clearly, for extremely low-income families, you have to get the rents down

very low. It's a combination of capital subsidy, like tax credits, HOME grants, etc., to get the capital costs down so you don't have to pay debt service. The other piece of it may be resident rental assistance, so that you're supplementing the incomes of the target household.

How do you mix those two sources? Are there times when you would use only one and not the other? Does that vary between the five situation rooms? For instance, if you have a very, very high-cost area like San Francisco or Boston, it may be that minimum feasible rent is \$800 because it costs like heck to run property in these markets. You have very high operating expenses and very high reserves because everything costs a lot. When you add in the margin for vacancy and a little bit of wiggle room, maybe you're at \$800, and \$800 is not the number for a family under 30 percent of area median income. So, maybe in the very high-cost markets, Section 8 or something like it needs to be part of the solution almost all the time.

Conversely, if you're in a very low-cost area, maybe with capital subsidy only you can get the rents down low enough to make sense for very low-income folks. Take a look at that concept as one of the dimensions of mixed-income housing.

Now, think about this: Suppose we have an existing property with an existing resident profile. Here are three situations worth thinking about. Let's say we have a property that has no extremely low-income folks in it. What's the right solution for bringing a mixed-income component into that property? Would you do it with Section 8? Would you do it with some kind of a capital subsidy that bought the debt service down on some of the units so that you could reduce the rents? Could you do it with some kind of internal cross subsidy where rents paid by higher-income folks could help subsidize rents paid by lower-income folks? Does that vary by situation room? Are there different kinds of properties where different approaches could be really useful?

Think about a different situation. We have a property that is entirely, extremely low-income and you have a relocation resource where some folks could find other acceptable housing to make room for a higher-income component. How would you accomplish

that? What would you need to think about in terms of location, marketing and management? How would you attract and retain a higher-income clientele? How would you manage the relocation? This is a question that people are facing, for instance, in HOPE VI, where you have a concentrated poverty property and the idea is to redevelop it with a mixed-income profile without leading to a reduction in the aggregate number of housing opportunities for extremely low-income folks. It doesn't help solve the problem if we reduce the housing available to extremely low-income folks to make room for higher-income folks. That's not really the right idea.

Now, think about this one. We have a mixed-income property that is already successful, and we're thinking about buying it or preserving it. What do we do to maximize the chance that 10 to 20 years from now, it will still be mixed income and successful? Maybe there are ways to think about the use agreement. Maybe there are ways to think about ceiling and floor rents. Maybe there are other things that would load the dice in favor of the property continuing to be successful and continuing to have a mixed-income profile.

Then there are management issues. There are research papers behind tab six that I really want to call your attention to. One of them is by Jill Khadduri of Khadduri and Martin. Jill is actually here, and she's formerly with the Office of Policy Development and Research at HUD and is now running the housing practice at ABT Associates. This study, and another one by Paul Brophy and Rhonda Smith, both concluded that management is really important; that where a mixed-income property is succeeding always, you have strong, active management. The rule of thumb that people are starting to tell us is that if you want to succeed at mixed-income housing, get really good property management. Make sure you pay them and really think about the management approach.

There are a couple of sub-parts to the management dimension of mixed-income housing. The first one is service strategies. A lot of folks believe that it's important to have non-housing services in a mixed-income housing property. There is a fair amount of anecdotal evidence that that can really be part of the solution. This is something that came up in the research. It would be interesting to see if people's actual experience jives with that.

The second management dimension I wanted to highlight is the role of community-building strategies or social-interaction strategies or, I think you've heard it in the policy arena as role modeling, which is not a term I'm particularly fond of. But, the idea is, when you have a mixed-income profile and the residents interact with each other, there are some cultural and social access benefits that are realized by the lower-income members of the community.

The research results on this are pretty mixed. I used to live in apartments earlier in my career, and I never really interacted much with my neighbors. So, maybe we shouldn't really expect this. On the other hand, there are properties where this occurs, and there are some positive benefits coming from it. Maybe it's worth the great deal of management work it takes to make it happen. I'd be interested to see what folks think.

There's an issue with defining success here. How would we say we've succeeded in a mixed-income property? How long does the property have to be successful before we open the champagne? What sort of a mix is successful? Is it okay if the mix shifts a bit over time? If so, how much? Do we have to have campfire ceremonies, where everybody stands around and holds hands and loves each other, or is it simply enough that people like the housing, it's sustainable, and it's a good place to live? In most areas, if you don't know where you're going and how to measure success when you get there, you probably won't get success.

In closing, a couple of things to bring from your situation rooms to the afternoon sessions. First, are there changes that need to happen in our policy environment to make mixed-income more feasible? For example, consider the Low-Income Housing Tax Credit program and the HOME program. Are there aspects of the way those programs work that would get in the way of mixed-income housing? Think about our mortgage programs, state and local tax-exempt bond financing, FHA and rural housing programs. Are there aspects of the way the mortgage lending work that would get in the way of mixed-income housing?

How do we get 100 percent capital subsidy into our very low-income units? With tax credits, it's easy enough to get 50 percent of the total development cost covered. And, maybe you can get some HOME funds for the rest, but it's really hard to get 100 percent of the total development cost covered. Are policy changes needed to make it easier?

The second big question is what are the things that we don't know yet? What additional research would be useful to do mixed-income housing successfully? What additional evidence would help policymakers understand how mixed-income housing works, and what would be some of the strategies for getting those answers into the policy sphere relatively quickly?

I think we're up for a very interesting day. I'm personally really excited about it and hope you are, too. I look forward to a day of really interesting discussion.

# High-Cost Submarkets

**Moderator:** *James Stockard, Curator of the Loeb Fellowship, Harvard Design School*

**Panelists:** *Peter Holsten, President, Holsten Real Estate Group*

*Wendell Johns, Vice President for Multifamily Affordable Housing  
Fannie Mae*

*Patrick Maier, Director, Real Estate Division, Housing Opportunities  
Commission*

*Jeanne Peterson, Executive Director, California Tax Credit Tax  
Allocation Committee*

JAMES STOCKARD: I'm going to organize the morning for us. Jeanne is going to make an opening statement on the kind of markets that we're examining.

JEANNE PETERSON: I represent an allocator of tax credits. In California, we have about 10 percent of all the tax credit in the country, over \$60 million annually for this year. We also have a concomitant state program.

A few areas are unique to high-cost submarkets. First, costs are so high that developments need a larger variety of funding sources.

Another issue is that because median incomes are so high, rents, even at the 30 percent level, can be totally unaffordable to people who are working, but still below 30 percent of area median income. Without Section 8, how are those people going to afford the rents targeting even 30 percent AMI?

Finally, I would suggest that the costs can be driven even higher in high-cost submarkets because of various public policies. For example, do we want a development located next to public transportation? Those are some of some of the issues that are unique to what we're dealing with in this particular session.

JAMES STOCKARD: Thank you, Jeanne. If you can develop a new unit in your place for less than \$150,000, you're probably in the wrong place, right? Okay, the first question you see on your list is, does this mixed-income concept actually make sense in these kinds of markets? We're here because we think it's true. Let's do a quick check with our developers.

PATRICK MAIER: Mixed income means different things, depending on the market that you're in. You could have affordable housing that is mixed income by having people on welfare living with people not on welfare. It's important to realize that there's a vast spectrum of mixed income.

In this market, mixed income is oriented to the high-income people willing to pay rents in excess of \$1,000 a month, who are looking for a high-class environment to live in and a place to bring their friends and raise their families. It's certainly realistic to have income mixing in those kinds of settings. We heard from our opening speaker that, in many cases, people really don't socialize in modern, high-density, urban communities. It's their home – a private place to bring their friends and to entertain. They don't necessarily know the people who live on the same floor or in the balance of the community. Integration often works very well because there's not a whole lot of social contact.

You will see in your packet a development that our agency has done, which really fits the model. In the heart of Bethesda, Maryland, we've developed a community that sits on top of a public parking garage. It is oriented to high-income urban workers who want access to the Metro next door, but also 30 percent of the units average incomes of 30 percent of median. It's one way of doing [this]. It certainly can work, but it requires a lot of public resources.

We've done about 10 mixed-income deals all over Montgomery County, [Maryland], a major suburb north of Washington, D.C. Montgomery County has

a wide range of settings, from redeveloping older suburbs that are struggling, to the Potomacs and Bethesdas, which are truly high-cost markets. We've done mixed income in each of those milieus, and it's different in each one. Our policy as a public agency has been to distribute low-income people throughout the county as much as possible. We've got a Moderately Priced Dwelling Unit (MPDU) law, which is an inclusionary zoning ordinance that enables people to live in the new subdivisions as they are developed. It's a key principle from a housing policy standpoint, and it drives us to pay the extra dollars and make the additional subsidies available to focus on these high-cost areas. Lots of low-income people work in Bethesda. It's appropriate that they be able to live there.

PETER HOLSTEN: We've been developing affordable housing for 27 years. Until four years ago, all of our developments have been in large, single buildings, or several small buildings close by. Most of them have been financed with tax credits, meaning they serve households with incomes at 60 percent of AMI or below, and all of our projects have mixed income. We had many households that had zero income. They were on Section 8, or they had extremely low-income – around 20 or 30 percent of AMI – with assistance from a city rent-subsidy program.

We're now developing seven acres at Cabrini Green, one of our Chicago public-housing projects, which has 261 units. All units are income tiered in that 30 percent is public housing replacement units, 20 percent is affordable and 50 percent is market. We have households that paid \$425,000 for a three-bedroom townhome and, in the identical townhome next to that, is a Cabrini Green family earning about \$6,000 a year. Now, how in the world do you get those households to mix – to respect each other and to be good neighbors? We're finding that it's more than just development. It's more than just property management. It's a huge amount of assisted work and very active community building. We have a very strong work-force development program to get the Cabrini Green families into jobs. We have a very strong social service network to help these families make a transition into private living. You've got to get in there and really work with all income groups to help them make a community.

JAMES STOCKARD: Let's talk a little bit about the range of definitions of mixed income.

WENDELL JOHNS: I'd like to share with you what's in our portfolio today. We have examples of mixed-income financing at Fannie Mae. They are 80/20 deals, which have been in existence for a long time. New York City uses them, but not a lot of other jurisdictions. We have a lot of financing in those areas because the market-rate rent is strong enough that we can put a considerable amount of debt on it and feel comfortable with it.

We've done a few 60/40 mixes, where it met the minimum for low-income housing tax credits with 40 percent of the units at 60 percent of AMI and the other 60 percent of the units at market rents.

The main examples, including 30 percent AMI in the mix, are HOPE VI investments. We also have a whole series of investments that we did with NEF and ESIC for supportive housing and special-needs housing. These are the kinds of mixed-income serving 30 percent AMI households, where we've been able to provide some financing. Typically, the financing is equity, but, occasionally, there's some debt on it. Properties can't handle much debt if they're going to reach 30 percent of AMI. We might have a very small first on it, along with some other soft debt, but that's about it.

When we look at the definition of mixed income, it depends upon the local jurisdictions and what they're willing to do to come up with the resources to meet the need. For right now, it does not typically include the very deep targeting of incomes. It's typically tax-credit rents and above.

JEANNE PETERSON: There are many different ways to skin this cat besides doing HOPE VI deals. I would like to broaden the discussion a little bit and get some input about how people define mixed income because it is all over the board. During the hiatus between the end of Section 8 and the beginning of the tax-credit program, virtually all the affordable deals that were done in the country were 80/20s (tax-exempt bond properties with 80 percent of the units unrestricted and 20 percent of the units restricted to households with incomes under 80 percent AMI). In Michigan, we tried to develop a 70/30 program, and then moved it farther to become the 60/40 program. As we increasingly required more and more units to be affordable, our asset manage-

ment [said that there was] a tipping point and to not get over that.

For purposes of the conversation today, some people would say that mixed-income needs to include some percentage of people at 30 percent of area median income or below, and some percentage of people above that. But, the question is, should that be above tax-credit income and rent levels – above 60 percent of area median?

In Michigan and California we recognized in running a tax-credit program that the needs in various areas of states are diverse. We developed the Peterson Matrix, which allowed people to get points in a competitive system by doing various percentages of rent and income levels at various AMI levels – from 30 percent to 60 percent. Some people believe it to be mixed income in that you have an income range that is tax-credit eligible. Your highest range is still going to be 60 percent, but you're serving people all the way down to 30 percent and, in some cases, even below that. A lot of people don't believe that it's mixed income.

In California, my charge was to change the tax-credit program, from one that had been determined by a lottery system to one that took into account public purpose. We acknowledged that mixed-income developments were a worthy public purpose. Some of the difficulties on the tax credit side were in dealing with “next available unit rules.” We gave points for mixed-income developments. Some people applied for points for mixed-income developments because the wording was for “non-tax credit units.” So, if you're clever, you've already figured this one out, that they said, okay, well, we have a 100-unit project and 20 of those units are going to be non-tax credit units. I thought that was identical with mixed income and that they were going to be market-rate units. As we looked into it, some of them had other public funds that restricted them to be at 60 percent of area median. So, they weren't really mixed income. That's just an anecdotal example how people think they can manipulate systems into what they're not intended to be and how the definition of mixed income can vary a lot.

By mixed income, do we mean that some of those incomes and rents need to be the high end, like the people that can have the \$435,000 townhouse? I'm

not sure we do. But, should the upper end of the income mix be 100 percent AMI? Should it be 120 percent AMI? Should it be 80 percent AMI?

JAMES STOCKARD: What does it mean in a high-cost market area to have mixed-income housing? At least 25 percent of the units must serve households below 30 percent? What about above? Is up to 60 enough, as Jeanne suggests? Or, do we insist that it be some folks beyond the 60 percent point, which means pretty high incomes in the places that you all are interested in?

EVELYN FRIEDMAN: I'm from Nuestra Comunidad in Boston. First of all, we do below 30 percent and up to 60 percent in one project. There is a huge difference between a family that's at 30 percent AMI and a family that's at 60 percent AMI. Outside of the development, it may not seem that different, but inside, it's quite different. It is also important in an urban setting to understand that you can't take a project and just say that it's the only thing happening in the community. It has to be in the context of what else is happening in that particular neighborhood. If you say mixed income, what else is happening that would or would not let you have a mixed income within your property? We have to take that into context as well.

A family at 60 percent could be working at a fairly decent job with two children, and have a fairly comfortable lifestyle in our property, where a similar family making 30 percent is really struggling. So, when you're trying to have a community meeting, or have those families interact with each other, the difference is light years away. The 30 percent family is really struggling daily to pay the rent and the 60 percent [family] is quite comfortable in the property. The context for those two families is totally different, and they may live right next door to each other.

JAMES STOCKARD: Is there a different value in having the 60-percent and 30-percent families in the same building? Is there a bigger advantage to having a family under 30 percent and a family at 80 percent?

EVELYN FRIEDMAN: I don't think there's a big difference. The difference is in how the family struggles to maintain their housing situation. Income makes a huge difference in where their children go to school or whether they need after-school care,

how they are able to access it. Just paying for their food is very different.

BILL KARGMAN: My experience in the mixed-income environment is starting out with the 221(d)(3) programs and 236 programs from the '60s, and carrying them through the Plan of Action programs, which is the modification to prevent pre-payment in the '80s. Now, the Plan of Action programs are mixed income with an artificial cap of not being able to rent to anybody above 95 percent of the median income. Mixed income works in a lot of these properties from a program perspective, but from an owner and developer's point of view, the restriction on renting to higher-income people makes it difficult to attract people to the property. When you attract people to the property and tell them that they're over income, they have to go somewhere else. You end up renting to a different mix. From my 30-plus years of experience in housing in the HUD programs, I'm just learning about the low-income tax credit programs. My feeling is that the focus doesn't take into consideration that if you want to attract for-profit ownership and development of mixed-income housing, it has to provide long-term incentives for the people who are going to own and manage it. There has to be reasonable profits based on the entrepreneurial activities of the owners. The owners have to be able to attract a market-rate tenant, whether they are 250 percent or 200 percent of the median.

It works in a mixed-income environment, depending on where you are, if an owner is incentivized to rent and make whatever money they can on the high-end of the market. Even though they have to bring in a low-income component, that property has to look like a market-rate property. It has to be run like a market-rate property as well. If not, you will never attract and keep the market-rate component. We've been very successful when we've done that, even within the HUD restrictions, but we never have enough money. We can't earn money to put capital back into it on the profit side. We can't refinance because the HUD rules don't allow it. Generally, in *real* real estate, you refinance the property when your amortization gets to be greater than your interest payment. If the market is strong, you have capital funds to put back into [the property]. We have to look at how real estate works if we're seeking to bring in a for-profit developer.

The other thing is that most real estate was built prior to the HUD programs. They looked at their profit as they went along and it was 10, 15, or 20 [percent] – whatever it was they could live with other than what they made on the construction. Going forward, the owner has to be able to compete for sources or uses of his money for profits in the marketplace. Anybody who invests has to get a comparable profit, which has to increase with inflation. In the old 221(d)(3) and 236 program, the government said there is a 6 percent return on your initial equity. Well, with inflation, that became zero. Those are the kinds of factors that we have to consider if you want more for-profit entrepreneurial thinking to get into this marketplace and to be involved in mixed-income housing.

UNIDENTIFIED PARTICIPANT: Just to take the counter-position, there's a lot of for-profit developers fighting to get into this stuff. We're all competing for HOPE VI. I'm competing against Peter on a project and wish him the best. But, this is not *real* real estate in the sense that *real* real estate has market rates of interest and recourse debt. 221(d)(3) was a federal program that worked as mixed-income housing where you had a 3 percent mortgage, non-recourse debt. It's a public policy issue of not wanting to over-subsidize rich people in the course of creating an opportunity for poor people to have role models. The range should be relatively tight – more 30 to 60 percent than 30 to 120 percent in multifamily rental for both practical and policy reasons. Role models will be there at 60 percent of median. That's where the market is. Somebody at 80 percent of median in Chicago has \$1,500 a month to spend on housing and will access a home-ownership program or a condo program. The target population should be capped at 60 percent to maximize tax-credit bases and other issues to get the units built and to get resources in. As a general policy, we shouldn't be subsidizing people earning \$75,000 a year.

STEVE PORAS: I'm from Ellar Development in Chicago. I worked as a syndicator in New York in the early days, and we went to California in the '90s. I'm here in Chicago in private development, and I've seen various models. Mixed income was really a function of the depth of the government's commitment to subsidy in New York in the early days. Albeit working with not-for-profit developers, there was no hard debt. It was 1 percent interest-only debt in tax

credits. That's how the program started. In California, depending on whether you were in the Bay Area or in Coachella Valley, you either had a lot of subsidy, very little subsidy or no subsidy. Here in Chicago, if you're going to try to achieve that range from 30 percent to 60 percent for rental, it is probably the right range because it maximizes tax credits.

The question is for our public sector. How deep is the commitment to expand the range of affordable housing tools, capital programs and rental-subsidy programs to allow the income mix to happen? I'd love to do 30 to 60 percent, but it's simply a function of whether I can arrange multiple layers and not go crazy doing it in order to do that.

On the affordable, for-sale side, I would expand the range. Capping it at 60 or 80 percent probably cuts off your market and gives you too shallow a market to reach that kind of income mix in a for-sale homeownership scenario that you want.

ANNE HOUSTON: I work in suburban Massachusetts. What we're seeing in a lot of suburban communities is that it is the 80 to 150 percent range where your teachers, public employees and those in their income ranges are. They're completely being priced out of their markets. Communities are finally beginning to grapple with how to provide a range of housing that is affordable in their communities. They've got folks at the under 30 percent who are living in public housing. They understand that market, but they also understand that the teachers, fire fighters and EMTs can't live in town. It's a real challenge to think about how you mix that income range. There's an enormous difference between a family at 30 percent and at 60 percent of income. How you manage a property that might have people at both 30 percent and at 120 percent is a challenge that I'd love to see addressed here.

JONATHAN MILLER: I work for the Senate Banking Committee. What should the range be, and what is your goal in doing an income mix? The main argument that I hear, which was prevalent in late 1988 and up to 1998, was the role-model argument. As Charlie Wilkins and Patrick Maier have said, there's mixed evidence of that. One of the reasons for doing [mixed income] is that it's bad to have a lot of extremely low-income people isolated – particularly, extremely low-income people who are not working;

though most at 30 percent AMI are working and in these high-cost markets, working full-time.

There's another reason for doing mixed income. Upper-income neighborhoods have certain advantages to them. They have a lot more political power. They have better schools, better transportation and better public services. They're usually closer to jobs or to the transportation that takes them to their jobs. They're also able to pay more taxes to support public services. Mixed-income housing lets you get low-income people into those areas.

JAMES STOCKARD: Excellent comment, and a great transition. We promised to talk about some of the non-financial tools that people have used to encourage this. Jonathan, the comments that you're making and that Pat was talking about earlier hint at the question of inclusionary zoning as one of those strategies which would switch the responsibilities for who does this and so forth. Pat, you said you wanted to get in on this one.

PATRICK MAIER: I think Jonathan has set the table for me. We do have, in Montgomery County, one of the most noted, Moderately Priced Dwelling Unit (MPDU) ordinances in the country. It's been in effect since 1975. We've got a quarter of a century's experience with it, and it continues to produce units in every new development of more than 50 units in Montgomery County. One of the great things about this is that my agency, which is the public housing authority, has the chance to buy a third of the units that are produced. Two-thirds go to first-time homebuyers. In any new community we have an ability to buy MPDUs and then use a variety of public subsidies to help them serve low-income people. We've used acquisition without rehab public housing. We've used Section 8. We're looking again at Section 8 project based. We've got nine tax-credit projects made up of scattered site MPDUs. We've had a really terrific experience with this as a supply tool. I'd encourage those of you who are in high-income markets to figure out a way to create a supply in an otherwise unaffordable market. It doesn't work everywhere, but it's worth looking at.

JAMES STOCKARD: I'm going to ask Peter to describe the – I hesitate to use this phrase here in this room of distinguished people – but, the anti-snob zoning act in Massachusetts, which is one of



the tools that helps us with getting mixed-income developments done throughout the Commonwealth.

PETER DALY: It's a tool that's not without controversy. Peter Daly from Cambridge NHS in Cambridge, Massachusetts. Our state passed an anti-snob zoning statute years ago, which allows developers to circumvent some of the very tight zoning restrictions in communities that have less than a certain percentage of affordable housing. This was done for two reasons. First, to encourage communities to get up to that level so they can regain full control over zoning issues. It's also for the communities that were adamant about not allowing affordable housing into their communities to allow developers some tools to overcome that. It's been very effective in some areas. There's a lot of litigation that happens over these. Once folks found out the ways to stop this or delay it, which eventually can stop it, they take advantage of those. It has gotten so controversial that right now we have a housing bond bill in the state that's being held hostage by some of the legislators in some of the communities that are trying to overturn or modify this ordinance. It can be an effective tool but it has to be crafted very carefully.

JAMES STOCKARD: One of its most significant advantages is that you can change the density on a site. If it's zoned for one-acre lots and you acquire the property, you can propose the development of a higher density. You probably won't get away with 100 units per acre, but you might very well get away with eight, 10 or 12 units, depending, again, on the neighborhood context.

JEANNE PETERSON: I was also going to ask Patrick if the 50-unit requirement resulted in a lot of people doing 49 units or fewer as an evasion tactic?

PATRICK MAIER: I'm told it's an urban myth by our planning department, which has actually studied how many developers have tried to do fewer units than their zoning would permit. It's not the escape clause that you might expect. However, the county council just moved the threshold from 50 to 35. So, now, 35-unit subdivisions will produce some MPDUs.

JEANNE PETERSON: Interesting. In California, we looked on the tax credit side to figure out how to enhance developments, which really seems to work. We looked at inclusionary zoning. Of course, it's not

dictated by a statewide statute; it's determined by individual municipalities. Although there are many municipalities that have inclusionary zoning ordinances, they vary tremendously. In talking about trying to incentivize areas that did, we got into a philosophical conversation about whether this is a requirement or whether we want to incentivize people. In some places, developers can actually pay a fee rather than create affordable units. Although I think it is a good non-financing tool, at least non-federal government tool, it does vary a lot. Density bonuses, that you mentioned by a different name, are important and possible non-financing tools as well. In Massachusetts, it's statewide, but a lot of them are locally controlled as well.

JIM FERRIS: I'm with Housing Resource Group in Seattle and also a former director of a CDC in Boston. I'm seeing two high-cost areas with different tools, not financial. In Seattle, it's a density bonus. When you're doing housing in the downtown neighborhoods, similar to the city of Boston's linkage program, a commercial development could get higher density office buildings by transferring development rights of another parcel to a nonprofit or by providing cash to an affordable project. You can build affordable housing and have zero or very low land cost because that commercial development is contributing to your project. Seattle has also encouraged affordable housing by reducing the parking requirements. Parking is extremely expensive. Because land in high-cost areas is so expensive, we do not like to build parking. In Seattle, zoning requires 1.25 spaces per unit. With affordable housing, we are able to reduce it to half a parking space per unit. It also helps with the transportation issues in many high-cost areas.

Low-income families typically can't even afford to have a car. So there's a reduced need for parking in the urban areas. Why not spend less capital dollars on parking and be able to increase our density in affordable housing?

ANDREW COMY: I'm from New York City and I want to piggy back on this gentleman's statement earlier. We're just seeing the tip of our successes. As a non-profit organization, we've set up several for-profit business entities. We run several thrift stores and a commercial food-catering service. This allows us to create jobs for folks at a reasonable wage. We've also

set up in those businesses a requirement to develop a restricted surplus account. So, any money they make over a certain amount of their profit margin goes into this restricted account, which begins to seed capital development projects. If we achieve enough money, we can use it to purchase a property.

Initially, we have not achieved enough money to purchase properties, but we've certainly been able to use it to make down payments. We're hoping that using these for-profit entities could lower the development costs of our projects substantially by giving us the opportunity to purchase them. The other thing is to develop businesses in the buildings that can subsidize the properties themselves.

DENNIS LALOR: I'm from South County Housing in Gilroy, California, which is in the county that's referred to in our book with the area median income in the high or middle '90s.

We do mixed income, but we arrived there by virtue of mixing single family and multifamily. The single family is from market rate down to 50 percent median, and their profits pay for the land and the improvements of multifamily. That works in those markets because the incomes are so high.

KAREN FLOCK: I'm with Cabrillo Economic Development Corporation in Ventura County, California. Bernardo Perez is a manager on a project that he and I are working on in Simi Valley, where they have an unwritten public policy of no more than 25 percent of the units in a project can be affordable. We tried to do a 100 percent affordable project, but we acceded to political reality and were able to negotiate a 49 percent one, so we do have a mixed income, largely market-rate project because of that. With a special grant from Neighborhood Reinvestment, we will also hold a few units for 30 percent AML. We're in an area that has very low vacancy rate and very high market rents. Basically, any kind of rental housing is needed for working families; we think it's a good thing.

JEANNE PETERSON: This wouldn't be true for all states, but another non-financing tool that's used a lot in California is the joint venture. If you have a development as a for-profit developer, you're going to pay full taxes. Interestingly, this has given non-profits clout over the last years. Nonprofits may get a

real estate tax exemption. A lot of states that don't have it as a state statute will permit a tax abatement, which is financially beneficial. This falls under the category of a non-financial tool, or, at least not what we traditionally think of as a financial tool.

PATRICK MAIER: I'd like to mention a tool that our county put into place close to 20 years ago. In another time of high rental prices, we had a condominium conversion wave. The county said that it was a crisis. People were being displaced, and little old ladies were being put out on the streets. The county implemented two things: one, a condominium conversion tax, which generated revenues for our local housing fund, and, two, a right of first refusal for properties that were being sold in the market by private owners. They required the seller to reveal the purchase contract that was tendered by the purchasing party, and the county had the opportunity to match a legitimate private-party offer. This has been used rarely, but it has been used in the county. It's more often used as a negotiating tool to get certain things out of the transaction, perhaps to increase the placement of Section 8 and to see that some units are reserved for ongoing affordability. But, that right of first refusal is an important tool.

JAMES STOCKARD: Some of you are from smart-growth locations or places that are exploring this notion. Portland has a long history with smart growth; they've done the reverse of what Massachusetts did. Massachusetts said, "We don't care what you do with your local zoning, but if you haven't met certain housing standards, the state may override your zoning." Portland has said the reverse. The same thing about a standard in that there's a 10 percent standard for affordable housing, but you must zone enough land in your community for multifamily housing to achieve your 10 percent goal. If the towns have not zoned enough land to make it feasible for people to develop affordable housing, there are a series of consequences – from a light rap on the knuckles to withholding state funds for cities and towns.

Let's talk about the financial tools at this point. Let's begin with the fourth question: How do we explain these high-cost, high rent and, particularly, very high-subsidy questions to each other, to the public and to the dispensers of resources? In Cambridge, we often hear, "Well, for that amount of public sub-

sidy, I could do three units in Fargo.” Why should I do one unit in Massachusetts when I can do three in Fargo for the same dollars? What’s the answer to that question, both philosophically and practically?

PETER HOLSTEN: In a mixed-income community, in terms of managing to the market, it has to be built to the market. If you’re going to attract high-end people into a mixed-income community, it has to be a high-quality construction, which costs a lot of money. As far as how to reach people that are at the bottom of the economic ladder, they have to be very heavily subsidized. You have to be rent subsidized, or the cost of funds has to be subsidized. Normally, what we do is layer. You have to go and bang on a whole lot of doors.

PATRICK MAIER: We live in a county where a lot of homes have renovations that cost more than \$1,000,000. It’s not hard to explain to people that it is a high-cost market. Part of what’s different and where we’re fortunate is – in Montgomery County [Maryland], there’s an acceptance of the idea that you ought to have a diverse community. What America created in the suburbs is segregated housing by type, zoning and the economic barriers to entry. What we’re doing with all of these devices is a reintegrating the diversity of people at different income levels – people who are very much a part of the community. If you’re looking for a diverse community and economic justice, it costs money to house those people. You’ve got to be prepared to pay those costs. One thing that’s absent today is a unified, national focus – the federal contribution to making mixed income work.

JEANNE PETERSON: From a tax-credit-allocating-agency perspective, within the broad set of parameters that are in Section 42, states have been left with the ability to best determine not only their housing needs but how to allocate credit. One of the concerns that a lot of states have is with the oversight bodies’ perceptions of cost – the Congressional Budget Office, the GAO. There is the concern among tax-credit users that as costs get really high per unit, Congress, GAO or somebody else will look at it and say, “If it’s costing \$275,000 to create an affordable apartment, why don’t you just give the people that money and let them buy a house?” This is putting us all in jeopardy, including those who are developing units for under \$80,000.

There’s a reason why it costs over \$200,000 in some of those areas and, now, increasingly even more than that, particularly when you have to do earthquake mitigation, subterranean parking or some other thing. But some states have encouraged or incentivized the development of units at the lowest possible cost in their competitive systems. That’s an issue. It’s the whole philosophical issue of do we want to do fewer units at a higher cost, or do we want to do more units and have our numbers and credit look good in comparative studies. Believe me, even from a philosophical perspective, there are those who believe that units should be the old Farmer’s Home philosophy of many years ago – decent, safe and affordable, but very basic.

When you’re doing mixed income and trying to attract market-rate people, you have to have the amenities of market-rate deals. Probably everybody in this room has been in conversations about is it better to do fewer and deep, and serve deeper, or more with less subsidy? In some ways, it’s unfortunate that the question has to be framed that way, but it does, or has been anyway.

WENDELL JOHNS: Well, Jeanne, you talked about that study. That had crossed my mind also. Fannie Mae went through angst with high-cost areas. I remember in the early ’90s that when we saw that \$125,000, \$150,000, \$175,000 was for a unit, [I thought] “What is this, and where are we going to go with this program?” Fortunately, we’ve gotten comfortable with that by spending the time to make sure we understood what the designs were, looking at construction budgets, making sure that quality was worth the cost. We understood all the various components of the cost, so we are now comfortable that as long as we continue with that kind of discipline, we’re going to be able to provide dollars all over the country.

I also wanted to touch tools that actually are financing tools – property taxes and property-tax abatement. California is the model for that, as far as it being something that Fannie Mae and our lender and investor networks are comfortable with underwriting. There’s a lot of certainty surrounding their abatement, but that’s not true across the country. One of the difficulties in certain jurisdictions is getting comfortable with the abatement and determining its risks, how it’s legislatively designed and how

the lawyers get comfortable with it. This will allow the secondary market to come up with standards that we could use to pump dollars into that area. We know what happens if we lose that property tax abatement before the end of the term. We would have a flurry of major problems to solve. It is a good tool to use, and it is definitely required for us to reach 30 percent of area median income and less, but we have to come up with the right kinds of designs to make it work.

JERRY BAINE: I'm with the Indianapolis Neighborhood Housing Partnership. So far, I have mostly heard people talking about how to apply tax credits and how to deal with the 30 to 60 percent crowd. How can anybody make a deal feasible for the 0 to 30 percent crowd? That's a new focus of our mayor, and we're trying to figure out how we can make that work.

JAMES STOCKARD: It is an interesting statistic. Average public housing resident in the country is at 17 percent of median. Some are 10 and 8 percent of median. Do they have any place in mixed-income developments? Or, when we say under 30 percent of AMI, do we mean 28 to 30?

UNIDENTIFIED PARTICIPANT: Well, Jerry, there is a statistic that was out based upon an analysis of Section 42 properties. Thirty-seven percent AMI was the average income of the residents there. What got us to that 37 percent was Section 8.

PATRICK MAIER: We are the Section 8 agency, and we're in an area where utilization is a real problem. The market is at 99 percent occupancy, and the rents were mostly above the FMR's, and despite our "source-of-income" non-discrimination law, there's still discriminating judgments that landlords make as they review Section 8 tenants.

What we're trying to do now, partly to increase our utilization rate, is to go back to a number of our opportunity housing developments, which is what we call our mixed-income communities, and place project-based Section 8 units within them on a formal basis, since we now have the ability to do that. As we look at new developments, we're looking at 10 percent of the units being project-based Section 8, as a subset. That subset is probably around 30 percent of the units. The 20 percent in excess of that first 10 percent are probably going to be households with

incomes up to 50 percent of median. The other 70 percent of the units is at full market. That and several million dollars of public subsidy will get you a new development.

UNIDENTIFIED PARTICIPANT: Here in Chicago, there are projects going up where 30 to 40 percent of the units are leased to the Chicago Housing Authority, who then subleases them to those who qualify. It would seem that those tenants would be below the 30 percent AMI level and would be mixed in with the people in the 30 to 60 percent.

JAMES STOCKARD: As all of you know, the Section 8 formula is simply a mimicking of the original public housing formula, from whatever the rent is, down to whatever 30 percent of the income actually is. In most cases, the housing authority operates both of those formulas. They allocate the Section 8s, and they have the subsidies if they buy or lease the units.

UNIDENTIFIED PARTICIPANT: What we're seeing in Chicago is that it's done several ways. The housing authority has offered to buy some units. The developers of these mixed-income communities have offered to master lease a chunk of units to them. My personal preference, obviously, is to have the development own the units and master lease to the housing authority so that the developer and/or property manager has control over the management. Unfortunately, in Chicago, the housing authority grew so big and just became unwieldy, and did not manage their units well.

KATRINA VAN VALKENBERG: Hi. I'm with the Corporation for Supportive Housing (CSH) out of the Chicago office. We work with organizations to develop supportive and permanent housing for homeless families. Is there room for former homeless families who may need supportive services to be incorporated in the mixed-income housing in our communities?

PETER HOLSTEN: I can speak from practical experience on that. We're almost done installing 261 new households into this seven-acre plot at Cabrini Green. We have 79 public housing families and another 40 affordable, most of which the public-housing families are applying to with Section 8 vouchers because they were relocated, and they had [the vouchers] with them.

Once the family passes our tenant-selection committee, they are required to go through a social service needs assessment. The needs assessment is very thorough, and we want to make sure that the families are referred to services, hopefully, before they move in.

There's also the staff social worker that makes sure that follow-through is done, not only with the initial social service delivery, but then on an ongoing basis. For three years, she checks in with the family to make sure they're not going to fail. You cannot work with low-income households who have special needs without the attendant social services. That has to be a part of the plan.

JAMES STOCKARD: Peter, who's paying for all the social workers and all that support services?

PETER HOLSTEN: We actually put \$750,000 in our development budget as a soft cost. We did this because our project came online before the housing authority and the city department of human services put together the service-connector program. There is a service connector now, but it is in its relative infancy. My advice to anyone doing a mixed-income development is to make sure that the developer puts soft money in the project budget to cover it because a lot of the social service agencies' funding is year to year. They're hand to mouth, and sometimes government agencies like to point the finger to find it elsewhere, and sometimes you just can't find it.

JAMES STOCKARD: Patrick, you got any service money in your high-cost developments?

PATRICK MAIER: Yeah. One of the things that we've traditionally had within our agency is a resident services division. A home is more than just four walls. Part of our job is to help people do the best they can by moving on to home ownership, getting their kids into programs and getting the services that they need.

To answer the specific question about the formerly homeless, we've had an ongoing relationship with our county's health and human services agency, and have done a McKinney Grant joint application almost annually to bring in funds specifically for transitional housing for families. Some of it is within our own housing. Some of it is in private-sector housing that we lease with attendant social services. I echo Peter's concern. It's very, very important that

those services be committed on an ongoing basis in order for those families to be successful. We've seen waxing and waning of that commitment, and, when it wanes, it's a real problem.

JAMES STOCKARD: Wendell, when you see a set of big soft dollars like that in an application, do you underwrite with those dollars in, with those dollars out? Is that okay with you?

WENDELL JOHNS: Yes, we do underwrite it. A number of our partners develop special need and supportive housing in that regard. Mercy Housing, as an example, underwrites the additional supportive services into the operating expenses. That's effectively covered by higher rents, which have, in a lot of cases, been Section 8 higher rents.

Also, there are huge reserves that are established up front to last for some period of time. Hopefully, those reserves, along with interest earned on those reserves over time, will continue to support those services. I agree with what the other panelists said. You've got to have it there because the whole design of the property is dependent upon those services being available to the residents.

JEANNE PETERSON: We would certainly agree with that. I think it would be difficult to argue otherwise. In the past, we have advantaged so-called special-needs projects, worked with CSH in developing that language. We have always required services as a threshold matter. If somebody is claiming to be a special-needs project, they must have both a memorandum of understanding and a contract with the service provider, [and a] preliminary plan for what the service provided will be.

In our underwriting criteria and standards, we require the supportive services budget to be separate from the other development budget, but it's tough anyway. In a mixed-income project, it's even tougher to serve special needs or homeless.

JIM FERRIS: I wanted to go back to the property tax a little bit and change subjects again. Property-tax abatement has been really helpful in high-cost markets. Washington State has a new law that says those units serving 50 percent of median and below are 100 percent exempt. If you have more mixed-income than that, it's done pro-rata, based on the annual recertification of your residents.

Before the law came into effect, the county was actually valuing these as if they were market-rate rental properties. Five nonprofits in Seattle sued the state and finally won two years ago. They wanted to use the tax credits as part of the value of these properties, and we've got a ruling from another state that proved that that couldn't be used.

Valuation is done now on an income approach; they use maximum allowable rents instead of the actual rents we're charging the families. However, it has enabled us to put more money into reserves and to help cross-subsidize some of the lower-income units. The other thing that we're looking at doing more of is working with the local housing authority – doing land banking and using exempt property and rebuilding housing on surplus property that either the city or the county already owns.

EVELYN FRIEDMAN: Two things. One is on the homeless families. We put the supportive services in the operating budget to be able to acquire the services from another agency. We found that in the first two years [the services] were really needed. As the families stabilized over time, they needed them less and less. Then, we could reduce the cost of what we needed in our operating budget.

The second thing was about trying to serve families of different incomes. At one point in Boston, you couldn't get a Section 8 certificate. There were 10,000 families on the Boston Housing Authority waiting list. We were developing a property at that time. People couldn't get Section 8 certificates, and you couldn't get project based. We came up with this complicated process by which we had very, very low-income people and upper-income people who were only at 60 percent. We had a very complicated income matrix of people in various income categories. It works. But, as someone commented, this is how to drive your property-management company absolutely crazy. It can be done, but it's extremely difficult to manage.

DAVID REZNICK: I'm the CPA that works in affordable housing. We've seen a fantastic variance in how counties and/or states approach real estate tax abatement. What you described several moments ago about targeting the abatement in some floating manner, as it specifically relates to the tenant being served, I'm not certain I understand how that could be underwritten from a financing standpoint, but, it does

achieve a lot of benefits. In Tennessee, specifically, it is very, very difficult to develop affordable housing, whether it's in high-income areas or low-income areas, because they add the value of the tax credits to the cost of the property. So, you're getting hit twice. One, you're trying to do affordable [housing], where you're bringing in tax-credit equity to write down the cost, and instead the area utilizes actual cost. Secondly, they add the subsidy for the tax credit as an additional value because it goes to the property and it's created a hurdle to some of our clients in that state.

I've also seen the other extreme where the transfer of ownership from a for-profit to a nonprofit can create an abatement without putting improvements of significance into property. What you've done is create an exit strategy for a property owner. All of a sudden, the value of his sale goes up significantly when you build the NOI by both the ability to use the 501(c)(3) bond financing, as well as a tax abatement to get an NOI that can create a heavy value. I'm not certain what's served there other than the property is then owned by a 501(c)(3). So a balance is needed on "public benefit" of these tax incentives.

The other thing that's going to help make services somewhat more affordable and also create businesses in these buildings or in the neighborhoods is the New Markets Tax Credit. It is here. It is very real and very large. It is not specific to multifamily at all. The benefits that it can produce in the area are real because the dollar amounts are very sizeable. As we move forward in this, we just really have to keep our eyes open on that.

JAMES STOCKARD: Great. I'm glad you added that in. This would be a great time for a question. You've just hit the perfect moment.

GLEN HAYES: I didn't want to leave the comment about the layers. I'm with Neighborhood Housing Services in Orange County. We load it on ourselves when we come up with some of these things. How can you go out and try to make sense of a project that has six, seven, 12 layers? We laugh about it. We don't get angry. I think it's about time to start getting angry and find some way of doing housing without this crazy stuff that we're doing.

JAMES STOCKARD: That's what it is. As a veteran of two efforts in the state of Massachusetts to simplify the financing process, I'll now put my hat back on as a housing consultant. In a word, and I know this

doesn't apply to anybody in this room, the problem is us. There are so many of us in Massachusetts that want to help folks build housing, that we've largely created multiple financing agencies, multiple architects, specialties in architecture, green building, and accessibility. We've had all kinds of consulting firms. So, we have helped ourselves to segment the marketplace in a way that, frankly, in Massachusetts, we've agreed to look at each other, own up to it and say that we can't possibly figure out a way to change it.

ANNE HOUSTON: At Mass Housing Partnership Fund a couple of years ago, we tried a little demonstration. We wanted to see what it would look like to do a simple approach. You know what? People couldn't tolerate \$130,000 to a \$140,000 of subsidy from one source. It's not just us. We have created an overly complex system.

JAMES STOCKARD: So, instead, we have \$130,000 dollars in subsidy from four sources – four lawyers, four bond counsels, four inspections...

ANNE HOUSTON: In high-cost markets, the politics are particularly difficult.

RUTH ANNE SHORE: I'm the development director of the Salvation Army in Madison, Wisconsin, and also vice chair of the Dane County Board of Supervisors. I also happen to be a landlord. What I've heard this morning is a lot about sticks – how we can beat each other up. The landlords and the tenant advocacy groups in Madison have been beating up each other for the 12 years that I've been in Madison, and I don't see any new affordable housing. I am looking for carrot ideas – suggestions that other communities used as a positive, proactive environment to assist developers in wanting to do this of their own volition.

JAMES STOCKARD: Okay...financial tools. I asked each panelist to tell us a favorite idea for a financial tool that helps in these high-cost markets. We'll run down the panel and then let folks in the audience say what's on your mind.

JEANNE PETERSON: My one favorite idea, particularly addressing this issue of how to serve people at 30 percent or below, is something that probably a lot have already used – that is, to encourage or incentivize PHAs to convert their Section 8 vouchers into

project-based deals. In high-cost areas, we're seeing that waiting lists for Section 8 certificates have been years and years and years. Then, the people get them and guess what? There is no place to use them. They can't find a place.

I would encourage Congress to up the percentage that can be used. Why is it 100 percent for seniors and not for families? Or, should it be higher than is already allowed? Then, there is another – if we're going to encourage PHAs to do this, should credit-allocation agencies incentivize projects that have converted project-based Section 8.

PATRICK MAIER: Since we're talking about the wild blue yonder, let me first make a disclosure. I work for a public housing authority. That's who my employer is.

JAMES STOCKARD: We have a 12-step program.

PATRICK MAIER: That's right. What we're talking about in the reservation of units for households below 30 percent of median is replacing public housing. Public housing, unfortunately, has become an anachronism. There isn't any new supply – and all of the layering that we're talking about has not reached out to the very low-income, so we're talking about replacing public housing.

Part of what troubles me as we talk about the very large, multiple commitments of public funds to make this happen is that there's not a long-term commitment and continuation of this housing. Private-sector development, private-sector investment, tax credits, all of that, mean private ownership. And, unfortunately, private ownership just entails changes in the use of properties that are being controlled over time, and opting out over time. What comes to my mind as a tool that ought to be used is some form of public reservation of this housing. We use an interesting structure for the Metropolitan, a deal that's in your book. We use governmental bonds for the 70 percent of the development that is market rate, which is an oddity. We own that market-rate housing. It serves higher-income people, but it's owned by a public agency. We use private-activity bonds for the 30 percent that's affordable. Government bonds, if they're used for a public purpose of housing, have no limits to them. However, the ownership has to be a government. One thing to think about is how to assure with

the commitment of resources to serve low-income people that the housing is there?

We've just gone through the opting out of the 236's and the Section 8 new construction. Why do we need to pay for this all over again in a new cycle? Let's keep it this time and figure out structures that will enable that to happen with the help of private developers. They will come up with development opportunities and earn development fees and perhaps own the market-rate units, making sure that the affordable units are there for the long run.

PETER HOLSTEN: We have a very interesting situation here in Chicago when our private electric utility did a miserable job of electric distribution several years ago, and we had all sorts of brownouts and other problems. They have a punishment fund. In punishing Com-Ed, there's money available to do energy enhancements to affordable housing, and we're tapping into that on one of our deals to the tune of \$1.5 million. One million of that is put into energy enhancements, and the other half-million is a grant. So, if any of your electric utilities are screwing up, see if you could get your government authorities to punish them and put that money in affordable housing.

UNIDENTIFIED PARTICIPANT: What kind of energy enhancements?

PETER HOLSTEN: We're improving our HVAC equipment efficiency. We're putting on extra insulation in the roofing. We're doing triple glaze on the windows rather than double glaze.

PETER HOLSTEN: Solar, no. There's actually another city department that's dealing with solar, but so far we can't get them to return our phone calls. It's not sunny enough here!

JAMES STOCKARD: Wendell, you want to add to our tools list?

WENDELL JOHNS: Well, two points and one recommendation. There are great strides being made with the consolidation in the industry of lenders and equity providers. There's been a lot of talk over the years of one-stop shops. Some breakthroughs with the recent consolidations among our lender and investor groups are going to bring that to reality. If you think it's tough to try to reach people at 30 per-

cent or below, it's also been tough just to reach the people in the 40, 50 percent median income; trying to bring all the different sources and many attorneys together. There's a lot of work being done that gives us hope for greater efficiencies.

I was part of a task force of the National Housing Conference to come up with recommendations for the Millennial Housing Commission. One suggestion that came out of that group was to look at the advent of all the additional credits and additional bond cap, and determine how can we change the rules to give the allocating agencies flexibility to provide more credits on any one project that could be used to reach lower-income groups.

The assumption is that you will have competent management for the mixed-income management challenge. As far as the financing of it, if we could use more of the credits, let's throw in more 9 percent credits, or throw in more 4 percent credits, or be able to combine the two in order to come up with enough subsidy to bring that cost down, so that we can reach the 30 percent or below. I think it's something worth pursuing.

FRANCES FERGUSON : I'm with Neighborhood Reinvestment. To Patrick's point, which I believe so strongly, that we pour these public dollars in, and then behave as though we have no long-term ownership interest. Is there a way to create a Use Agreement so that there is a voice for the public dollar at the table, even though it might be a more flexible negotiation at the 15- or 20-year point? It might acknowledge at the end of 20 years that you're going to have to restructure the deal. Still, someone represents the \$40,000 a unit of public dollar that was put in, as opposed to us saying that we just leased it for 15 or 20 years and now it's whatever happens under the regulations (which in the case of tax credits, includes an opt-out price that is probably infeasible in most strong markets).

PATRICK MAIER: You know, Francie, I think there are probably lots of ways of doing that. As a public housing agency, we've gone into mixed-income housing. We intend to keep that housing, to the extent possible, affordable in perpetuity. In other communities, that might be the right answer. But, you know, this public land trust that follows the use of public land – it seems to me that the same kind of public affordable housing trust could have a place at



the table. It could be acknowledged as a provider of the funding up front and is able to say when the development is restructured or refinanced, that it's critical for affordability to be maintained.

JEANNE PETERSON: I'd like to comment on that, too. It's borrowing from somebody else's logo or whatever, just do it. In California, every deal that gets 9 percent credit has a 55-year affordability restriction. You just do it by fiat if you're the public agency. I don't know that you necessarily have to build in all the what-ifs into the restrictive covenant, but we do permit unforeseeable things to happen that would allow refinancing or something like that. As public agencies, public lenders, developers, and state credit agencies, you can develop a vehicle that will result in long-term affordability. It's probably our responsibility to do that.

I also wanted to say something quickly about what Wendell said. One of those tools would be to remove the restriction that requires you to do the 4 percent credit when you use tax-exempt financing and let you get the 9 percent credit for all. Another one is to simplify the so-called "next available unit rule." That has led to incredible difficulties. Not only is it incredibly difficult [but it would] incentivize developers to have your development to be in one building, so you don't get into all these issues about separate buildings. The rule is different for tax-exempt deals than it is for credit deals. That really needs to be taken care of, and it would incentivize developers to do mixed-income deals.

STEVE SCHOOLER: I'm with Transitional Housing in Madison [Wisconsin]. In terms of tools, we try to mix and match private donations from foundations and from community members, and give that as part of our equity. We stay away from tax-credit deals because they're too complicated, and we're non-profit. Our benefit and pitch to both public agencies and to people is that our mission is housing. As a result, we acquire property. We develop it. We provide the social services, and we manage it, all in one. I'm curious as to how many other situations are like that – where you have a developer going in with the idea that they're going to live with the project for the rest of its lifetime.

PATRICK MAIER: Yeah, we do those things, and then we also finance it. I guess we develop it as well.

JAMES STOCKARD: We have another suggestion here. Nelson, thanks.

UNIDENTIFIED PARTICIPANT: We introduced a program through our American Communities Fund that took off like wildfire that was designed to deal with some of the issues you were raising, Peter. The reality in high-cost areas is that the land itself is expensive. In the case of trying to develop affordable housing, how are you able to be nimble enough as a government or a housing authority to be able to pick up land while Peter goes out there and puts together 10 layers of financing to make it happen? We've developed a line of credit program where we'll lend the balance sheet of the housing authority, or the balance sheet of the city government, let them buy the land, and then re-lend it to Peter, and, make a little bit of mark-up. We can do that right now. We're doing that at 2 percent and 3 percent interest rates. That creates an ability for government to be very nimble. I was just amazed at how this program's taken off in the Midwest. A lot of city governments and housing authorities just need to be that nimble to make that happen.

JAMES STOCKARD: And, they buy at market or they're using eminent domain ...

UNIDENTIFIED PARTICIPANT: Well, sometimes they're using eminent domain. Sometimes they're buying at market. Sometimes, just because they're city government, they know the little lady that owned the whole thing. That whole housing complex is just about dying. They can swoop in two days and buy it. So, we've created lines of credit relationships with a whole bunch of places so they can do that. Again, not lending on the project. We're lending on their balance sheet of the public agencies.

JAMES STOCKARD: Then, you get paid back when it's turned back over to the nonprofit because they're not just lying around with a whole lot of extra money at those places. In Cambridge, we have a local affordable housing trust fund. We have a particular case of how it came to be in that we're one of those odd places that had rent control for the last 25 years until five years ago. When rent control disappeared, which was a huge problem for all kinds of folks in our town, we convinced the city manager first to take the cost of the rent control office – \$1 million – and give that to the housing trust fund. So, we have

\$1 million a year generated in tax revenues that used to support the staff of the rent control fund now going to the trust fund. Secondly, we convinced them to say that the valuation of properties in town is going to go up, with rent control gone. And, we'd like the balance of new taxes you're going to get, which came out to be, in the first year, about \$3.5 million. So that's given the trust fund \$4.5 million a year, and there's a body of trustees that simply doles this money out. So, we've created one more source.

DEBRA SCHWARTZ: I'm with the MacArthur Foundation and no one has mentioned community land trust. In California, they are widespread. Another tool that I know is used in San Francisco, is the way in which the city issued bonds and uses that to hold title to the land and also to provide guarantees against Section 8 rents, when they happen to be

actually over the tax-credit rents and to be able to access more financing.

JEANNE PETERSON: Yeah, that's a good one. That's pretty unique. Not very many municipalities are willing to guarantee that, at least in my experience. It's a good tool, and maybe the Boston people here can think about that. The other thing that nobody talked about is more money from the federal government.

JAMES STOCKARD: More money.

JEANNE PETERSON: The emperor has no clothes, here.

JAMES STOCKARD: Okay, folks, I've been getting the time signal here, so I think we have to go. Please, for our very thoughtful panelists. Thank you guys.

# Suburban/Healthy Urban Submarkets

**Moderator:** *Christopher Tawa, Specialized Lending Products  
Land Lease Real Estate Investments*

**Panelists:** *Amy Anthony, President, Preservation of Affordable  
Housing Investments, Inc.*

*Kurt Creager, Chief Executive Officer, Vancouver Housing Authority*

*Robert Spangler, Managing Director and Manager  
Multifamily Housing Finance Group, RBC Dain Rausher Inc.*

*Mark Welch, Director, Rental Finance Division  
Colorado Housing and Finance Authority*

CHRIS TAWA: We will start on the definition of a healthy urban/suburban market. This area overlaps a little with the high-cost market. It's not an easy distinction to make.

The second area is the discussion of the dynamics of the housing market on its own; how does the housing market naturally produce, or not produce, mixed-income affordable housing? We don't really have a free market in the housing market. We have a regulated market. We have tremendous impact from zoning, land-use decisions and their outcomes.

We then want to go to the subsidy-driven tools that we have, such as capital subsidies, operating subsidies, and the like, and examine which of those subsidy tools work well.

I'd like to start out with exploring the definition of a healthy urban and suburban submarket. In our discussions among the moderators leading up to this session, I had posed a question about how this compares to the high-cost session. In healthy markets, there is a relatively narrow gap between market rents and what would be deemed affordable rents. Land costs are relatively lower, building costs are relatively lower, and there is not as high an offing expense load. As a result, there is not quite as much

stratification between market rents and affordable rents, and there is not as much stress in this type of marketplace vis-a-vis affordability.

However, a healthy urban market or suburban market is a growing market with new investment in housing, retail and job creation. As a result, any investor is seeking to invest for return. There is an interesting anomaly in thinking about this definition: Is a healthy urban or suburban market really just a point in time? As a market grows, and becomes successful in obtaining new investment, don't we generally trend towards increasing rents, growth in household income and growth in jobs, which means that there's more demand for housing than there is necessarily supply? Thus, we start to squeeze out affordability, and it struck me that the concept of a healthy urban/suburban market related to a moment, in which these matters are in some sense a equilibrium, but may not last real long.

Now, we can, of course, go to the opposite direction. We can have a market that's increasingly unhealthy, which has job loss, abandonment of housing, dilapidation, and that's not what we're trying to discuss in this particular session. If we're in a healthy market and are observing a level of equilibrium, if the market is growing, don't we start to observe a loss of

affordability? Isn't it prosperity and growth that starts to create the burden on affordability?

The core concept is that a healthy market that's growing, that has good schools and good municipal services naturally evolves into a situation of some difficulty vis-a-vis housing affordability. We observe local governments putting a lot of effort into job growth and job creation. The success of those efforts then has impact on housing markets. It also has impact on renovation and in new investment. As we have job creation, business growth and housing lag, there is an observed trend of affordability being squeezed out.

If this is the case, is a healthy market, by definition, heading towards an environment in which affordability won't exist for the very long term? And, of course, the companion issue is what can we do about that from a regulatory standpoint?

AMY ANTHONY: A healthy housing market means that there's reasonable mobility. Someone with a modest income level can afford to rent a home or an apartment that is not subsidized. The question is whether that would be considered by the town fathers or the city mothers to be a healthy economic market. In other words, aren't we always, in our political leadership, seeking a level of growth, which is going to push against a healthy housing market? So, when a place is described as having a healthy economy, it almost presumes that there's significant pressure on the housing market. That, when we have a stable housing market, if you talk to local people, they would say [that] we need to work on our economy [and that] we need to push more jobs. This is not really the kind of situation we want to be in.

The other side of the Kansas City environment is that the tax-credit program has been widely used around the state, and its allocation has been politically driven. It has been disbursed according to political jurisdictions over the years and has contributed to creating unhealthiness in some markets that might have been fine before by driving overproduction which, in turn, has threatened the health of existing housing.

On the one hand, government intervention on the economic development side may push against the stability of [housing] markets by driving them

upwards. Government intervention on the housing front may push the other way and may create competition and instability in the rental markets, [driving them downwards].

CHRIS TAWA: I want to return to the qualified allocation plans, and how the allocation of subsidies affect healthy markets; how our subsidized projects sometimes feed on each other through concentration in certain neighborhoods.

Maybe what happens is that we find a migration of the healthiness of a market. As the healthy market – which is closer into the city – starts to grow, it moves further and further out as we seek lower land costs and opportunities where developers can seek easier entry. There are fewer barriers.

I've been talking to Kurt about smart growth in Maryland. There is new thinking about urban and suburban development, and the focus is on being closer to where there are existing transportation resources. There are negative consequences of that type of policy, especially after the horse is a little bit out of the barn. We already have development and growth in place, and now we seek to impose an overlay of directing growth in a certain area.

KURT CREAGER: The moment in time that you describe is a dynamic one. It varies with size of the market, too. Larger urban and suburban markets that are "tier one" markets have enough volume to attract the real estate investment trusts (REITs) and are the most volatile. Seattle, suburban King County, Redmond, where Microsoft is headquartered, would like to be tier ones, and in the 90s they attracted lots of interest. Portland and Vancouver, also, I'm not sure I'd call them tier one, but we definitely were bid up and have dealt with the volatility of the market really peaking about 1999.

We also operate with urban growth boundaries. We operate with planning expectations in regard to the mix of multifamily and single family. One of the challenges is that in a fast-growing market where there are good job fundamentals. You've got robust technology. It has been more robust in the past. You've got strong retail. You've got an emergent, if not mature "edge city." You've got an emergent office market, so you are a destination for jobs.

In dealing with that growth, local governments then have to deal with the cost of infrastructure. The transaction fees in many of these emergent markets, i.e., impact fees and system-development charges, are now matching, if not exceeding the cost of your underlying land for new construction.

There are lots of ways to shift and share that cost. We have been somewhat successful in doing larger-scale projects where you can actually spread the cost of infrastructure, finance and development over more projects, which involve multiple parties.

So, scale is important, which works against a lot of CDC goals. We like 200- or 300-unit projects, as a minimum, to generate the economies that we need in our marketplace to make deals pencil and, generally, won't consider deals under 100 units.

For those of you in markets that are too small to attract REITs, you're actually in a better situation, often times, than those in larger markets because you don't have the battlefield elements of trying to bid against somebody from Palo Alto or Newport Beach for a particular property.

DOUG WESTFALL: Kurt, the size of the projects that you're attracted to contrasts with what Chris alluded to, as far as allocations. The allocating agencies – who are not accountable for the properties' economic feasibility – allocate into smaller and smaller properties. As a public agency, a housing authority, you recognize that you need some economies of scale for long-term financial feasibility.

CHRIS TAWA: That does have a tremendous impact on the feasibility of the allocations that are made.

KURT CREAGER: Well, there's a place for small projects. Don't get me wrong. It's just that you can't confuse it with your mixed-income goals. To me, we are certainly committed to providing very low-income housing to special-needs populations. We do 811's and 202's, with local nonprofits as a developer and as the manager of portfolios of 811's and 202's. However, they're not sustainable, financially, as a business proposition. They need seven to nine sources of equity to make them pencil. A true mixed-income portfolio has to be with projects of significant scale, an issue that most aid agencies have not really addressed squarely.

On the land-use side, there are some wonderful land-use incentives. Having worked at Metro King County, we operated a bonus density incentive program. There, too, you need scale to attract takers. We found that anything less than a 33 percent to 40 percent bonus-density incentive was not enough to drive a deal. You don't get enough units in a project to create the internal subsidy. In King County, our minimum size for inclusionary zoning was 100 acres. We were doing deals of 3,000 to 7,000 units with inclusionary zoning, which allowed a 50 percent bonus-density incentive to get people to commit to very low-income and affordable housing, but, not all communities can operate at that scale.

AMY ANTHONY: Is there an affordable, private market rental housing that's stable? In my own experience, the affordable housing that's privately owned, is not sustainable. It's largely affordable because it's shorting repairs, long-term investments and physical improvements. Consequently, it is affordable, but it is going downward. Similarly, if the market is strong enough and owners can invest in that property, they're going to drive higher rents to support that reinvestment. I don't think there's much private housing that stays stable over time and is affordable. It's going one way or the other. Another way of saying this is that affordable rents that can be paid by people at 30 percent of income can't, by themselves, support housing over time. But, I'm hoping that's controversial, and that people might argue.

ROBERT SPANGLER: I've seen a lot of nonprofits that I work with try to acquire a project, retain and preserve it. This only works if it's a market-rate product that happens to be affordable because of where it is located in the submarket. They don't require subsidies that would require capital besides state taxes and financing. At the same time, they're not doing anything to make it mixed income.

MARK WELCH: Well, it does look a little different from a different side of the table. One of the key questions is what does naturally-occurring affordability look like? For Colorado, it's been on a five-year roll. What a five-year roll translates into is a lot of job growth, enough population growth that we added a U.S. representative in Congress this time around. The rents – this really applies to the Denver metro area – has jumped annually between 4 percent and 7 percent each year for the last five years.

That's quite a bit of movement. What the snapshot looks like is that market rents usually fall between 65 percent and 70 percent of AMI. If your income is in that range, you're going to be able to afford the average apartment that exists. Given that as the naturally occurring affordability, we are usually trying to buy something back in allocation of tax credits, tax-exempt bond financing or a combination of government goodies.

A lot of you are familiar with HFAs that have gone overboard in trying desperately to create 30 percent AMI units with tax credits, and not much else. You really set yourself for a nasty fall about four, five, six years down the road. People are lying on their applications because we used to stretch the truth ourselves. But, whatever it takes to get the allocation.

That's probably the kind of mistake that the allocation agencies have made. Some of them are learning, and have backed off a little bit. In Colorado – maybe we'll be sorry we did this – we did away with the beauty contest this year, so we're taking them as they come.

We can afford to do that because we haven't been over-subscribed for the last couple of years. Any developers in the room know it costs \$50,000 to \$100,000 to put together a competitive application. That's a lot of money to gamble and, when it falls through, not be able to switch to an alternative financing method. We were seeing that occur as well. We don't want to see people waste money on sites that make no sense or that have no chance at succeeding. They might work two years from now. They might have worked two years ago. But, in the current snapshot, where we've got naturally occurring affordability for 65 percent to 70 percent AMI people, we're not going to give tax credits for a project that just gives me 60 percent AMI rents; it is not enough.

KURT CREAGER: Mark how would your new open-door approach deal with scale?

MARK WELCH: Well, we're learning a couple of things. One is that we have tended to do smaller size projects on the average; meaning 70 or 80 units affordable in a larger project, but that's how big the affordable piece would be. We're looking at bumping that up to maybe something over 100, 120. You begin to hit some real economies of scale, at least in the

western, Midwest part of the country. You get some real economies between 150 and 175 units, where some real magic occurs there in terms of operating costs and that kind of thing. You don't need one more maintenance guy, for example. Stuff like that can really add up over time. Our private activity bond 4 percent credit deals have always been bigger. They usually fall in the 125- to 200-unit range.

UNIDENTIFIED PARTICIPANT: And, what do you do for mixed income?

MARK WELCH: Some of the developers in our state will not do anything but 100 percent affordable, which, on a Private Activity Bond deal, is all households up to 60 percent AMI. Some of their competitors, though, won't do more than 45 percent, 50 percent and, 55 percent of the units affordable because they're trying to basically make sure that the way that that project comes out of the ground in the eyes of the public is as a market-rate deal. In other words, you hide the affordable units underneath it.

AMY ANTHONY: Are these tax-credit affordable or 30 percent of AMI affordable?

MARK WELCH: Tax credit affordable.

CHRIS TAWA: What are the regulatory tools that we use and local governments use to either promote or inhibit affordable housing development and that includes community acceptance? Let me tie that into the scale issue. There's resistance in communities to multifamily development, in particular, out of concerns about growth. The common wisdom is that tax contributions do not pay for the actual drain on public services that new development represents for the cost of schools, fire and police, etc., and that there's a deficit. The way that the communities try to address the deficit is through very large tap fees and other means. Even worse is the resistance to projects of significant scale. It strikes me that there's a disconnect right there.

We're all acknowledging that you need some level of scale to have project feasibility, especially in the mixed-income area where some units will be lower rental, and others will lose net operating income because of that. There is a very clear disconnect between the scale needed for feasibility, which is in

that 100+ unit range, and the type of scale that communities will accept in what we characterize as healthier markets, which means that they're growing and they're somewhat receptive to development. It's real hard to make the case. Many of you have gone to community meetings in which the developer is making the presentation. I go to these often because I'm a financing source supporting them in trying to calm the community down about what we're going to be doing. There's a great deal of concern about things that, in a predominantly single-family community, you can walk in and say that we're going to do a 150- or 200-unit property, but, don't worry, because it really is going to look awfully nice. Here's a lot of evidence that it won't hurt your values, etc. We have not been effective at addressing that issue and the perceived negative burden that this represents on developments.

AMY ANTHONY: I'd broaden it a little further, and just say that it's been my experience that suburban areas are generally unreceptive to rental housing at any scale. They're unreceptive to affordable, meaning for really low-income people, period, across the board. As we see markets become healthier, we see zoning increasing the land per unit. First, it's quarter acre then a half acre then two and three and so on.

When I was in state government, we certainly dealt with ways the government can provide carrots and sticks around what kind of behavior communities have around zoning and allowing development of rental, multi-family housing. There are lots of strengths the government now has at the state level, in terms of targeting resources allowing funding sources, like environmental monies and parks' monies, which can be tied to housing policies if a state develops a comprehensive approach to it. Further, at least in many states, there are resources that go out to communities – whether it's various kinds of revenue sharing that come from the state to localities. It can be general revenue sharing. It can be school related. There are lots of ways that money flows. The framing of that money can be encouraging or discouraging to that community's attitude toward development. There are lots of tools, as long as we look broadly enough beyond the particular purview of the housing agency, at the state level.

UNIDENTIFIED PARTICIPANT: The enlightenment that you're speaking of tends to only happen after a real estate market becomes unhealthy?

AMY ANTHONY: That's where states are key because you're not going to have the whole state unhealthy. That means there is the ability to learn within the states and apply it to places that haven't yet gotten out of hand.

GREGG WARREN: I'm from Raleigh, North Carolina. What we haven't been talking about is the 30 percent of income issue. We've been talking about just the challenge of doing mixed-income tax credit deals. It occurs to me that in the suburban markets and the healthy markets, no developer is going to be able to go to a community and effectively say that they are going to do mixed income, and a lot of that mixed income might be serving 60 percent AMI families. Maybe 10 percent of the units are going to be targeted to the very low-income folk. We're not talking the working poor here. We're not talking about your firemen and your teachers. We're asking, "Would you please approve us to serve the non-working poor, those who are on TANF and the like?" There's no way that we would be able to succeed asking for that permission, so the only way that we can do it is back into it, not tell folk what we're doing. The state government people are going to be the ones who are going to have to offer the incentives for us to do that. It will be the rare local government that will have that in its mission. They will be able to politically survive, and maybe you can do that in Vancouver.

KURT CREAGER: Well, I do think there's a lot of merit to flying underneath the radar. It's certainly a lot easier to get a deal done in a timely fashion. The different states have different density expectations. In Washington state, every county that is required to plan has to have an adequate supply of single and multifamily zoned land to suit their next 20 years of projected growth. They don't get to set the projected growth themselves. They get to choose from a state-determined range of growth, so they can choose to grow fast, medium or slow, but not entirely stop growth.

What that means in Vancouver is that 40 percent of the stock is intended to be multifamily. And, they have hit that growth target in the last 10 years. They

did so by using 20 years' worth of land supply in six years. We have seen lots of flight from Portland because we have no income tax, and Oregon still has a 9 percent income tax. We see lots of tax-driven growth. Schools tend to be better, too, in the Washington side for a lot of reasons. The local governments that are held accountable to a state planning standard can do marvelous things. What you will find both in Vancouver and in metro Seattle is that the core cities are being responsible in how they're planning for density. The suburbs around them tend to be falling short of their density goals – sometimes 5 to 10 percent multifamily, or 90 percent single family. There, you do require some intervention and some teeth.

Local housing governments that are serious about promoting mixed-income housing have, at their hands, great tools. Vancouver has a very concerted effort to promote housing in its downtown core. They are doing two things that are the most remarkable. One is that, if you do a project in the central business district, the environmental review has already been done by the city. So, they essentially did an area-wide environmental assessment, and as long as you're building within the planning framework, you don't have to do a supplemental environmental review, which, in Washington state, saves you about 18 months' worth of appeals.

The other thing that Vancouver has been willing to do, which is very heroic, and it's been more aggressive than Seattle has been, is that they will finance a parking garage using general obligation bonds issued by local government. And, those parking garages provide you essentially a foundation with utilities at your property, which is a leaseback arrangement with the city. That will help make deals work.

CHRIS TAWA: Now, we're at an important juncture: If you're going to go into suburban locations and try to serve the very low-income, the best way to do it is with the stealth attack and to do it without telling anybody. That is something which has played itself out in many ways, because there's been litigation on this point about if you want to go in and do development that is otherwise allowed as of right under zoning. Do you then have to have public examination of the tenant income mix? This has particularly become apparent when we try to cite group homes or facilities to serve special needs in communities.

Aside from the stealth attack, we've also noticed now that there are ways to encourage or use the carrot-and-stick approach from on high. The state can encourage this or use a stick to force it, or we can use the stealth approach. Either one still says the same thing, which is that the locality itself is inherently resistant to what we're trying to get done here. And, that we have ways to force them to take it, or to fool them to take it, but are there really any ways to have communities choose affordability for a full-income mix, aside from the very pro-active, very forward thinking communities?

CUSHING DOLBEARE: One of the things that surprised me in an early session of one of the focus groups of the Millennial Housing Commission is a study that John Seiber did in Virginia, which showed the location of housing that was affordable for people at minimum wage level and the location of the minimum wage jobs. There was no correlation at all because the jobs were all out in the suburbs. It seems to me that one of the things that we need to do is to integrate the planning activities of suburban communities. My guess is that in most of the communities that resisted for the reasons that everybody knows – the pocketbook and this is going to lower the value of my property and so forth – there's not much realization about the kinds of housing needs there are. There is considerable evidence that it's a myth that non-elderly households with incomes below 30 percent of median are not working families. More than half of these extremely low-income households get the majority of their income from work. If we try to integrate ways of planning and ways of making the case where you have state allocations, there's a very good likelihood that the Millennial Housing Commission will recommend a 100 percent capital subsidy for extremely low-income families to use in conjunction with tax credits and so forth in a mixed-income context. But, if state agencies will allocate that, in terms of plans that involve local governments in identifying the locations of low-wage jobs, this can overcome a lot of the examples so it doesn't have to be so much – quite so much mouth.

AMY ANTHONY: I would give, as an example, the Cape Cod area of Massachusetts. It has been a very strong market and is isolated by water, and two impossible bridges from the mainland. When we were trying to get local communities to generate



partnerships to push housing, there was more energy from the Cape than I ever expected. The reason, of course, is that it's highly dependent on low-wage workers. Its lifeblood is waitresses and the people who service that tourist industry. That community really got it – that it really had to find a way to have housing. They really did understand the link to their own economy. Suburbs, which are more interconnected, have a harder time understanding that they need to think about the people on whom they depend for low-wage jobs. If the population that you're focusing on is defined as people who are not working, it becomes more problematic. But, you're right. There are some very low-wage workers who are in a bind here that we need to focus on.

UNIDENTIFIED PARTICIPANT: When states do their QAPs they have their public hearings and the developer, everybody, in this room comes. But, very few cities show up. Or, do the state housing finance agencies (HFAs) ever go to the city planners, have a specific, desire to target, so that we can overcome the resistance to creating the housing closer to the jobs?

MARK WELCH: It's probably fair to say that we don't invite a whole lot of criticism, and that's what it feels like you would be doing. There's been a much more passive attitude toward – okay, it's a public hearing and it's been announced. If you show up, you get to say something. If you don't show up, it's already been decided anyway, so don't worry about it. Now, that's probably a bit cynical, though it probably looks that way to a lot of people.

The whole discussion of affordable housing has fallen in the last two years under the umbrella of smart growth, as Denver, Boulder and other cities have expanded. We even had a special session of the legislature devoted strictly to smart-growth planning in an attempt to put in place some of the plans that were mentioned, such as a requirement by local jurisdictions to say these are our growth boundaries for the next umpteen years, and we're going to enforce those. And, within those boundaries, we will have multifamily housing, single-family housing, business development... And we will link them with our neighbor towns, suburbs, whatever.

People could not agree on that legislation, so it didn't happen. It's a tremendous war in Colorado between

the environmentalist crowd that wants to keep the beautiful vistas and everything that we've got, which means, stop growing. Well, when you stop growing, you end up with Boulder, where the littlest cracker box house is in the \$350,000 or \$450,000 dollar range, which is a lot for the middle of the country. This is not the Coast. In a discussion of limiting growth, the affordable housing folks ended up on the opposite side of the table from the environmentalists. I found myself fighting with old friends from Colper, and said, I'm sorry, I don't agree with you. We even had people from Boston come out and try to tell us how we should think about it, and that didn't fly very well.

MARK WELCH: Part of the reason I say that is, like a lot of states, Colorado is a state where government intervention is anathema. Five years ago, all the dollars the state put into housing was \$600,000 a year. That's it. There are no other funds that the state put into housing in Colorado, and they're proud of it. Now, it's gone up a little bit, but there are no housing trust funds there. We're not going to start passing a lot of laws for inclusionary zoning at the state level. Home rule is very strong in states like that. You will find the pockets. In Denver, right now, there is discussion about an inclusionary zoning ordinance. But, it's 50–50. It's tied up right now. I don't think it's going to pass in its current form.

PETER FALLONS: I'm Peter Fallons from Worcester, Massachusetts. We're teeing up some three deckers, but now a \$40 million deal that involves the renovation of a church and 150 units of housing with Winn development. It's probably going to happen. I was recently at a forum with people from all the ring counts of Worcester, and it felt like being in West Africa. The whole language was so different, and I'm wondering whether we shouldn't assert that our old cities are the best place for people to live. They have built-in affordability. The mother-in-law unit over the garage, the more compact use of land; mix of density; a lot of six, eight, 10-unit properties. And, I would make the Faustian proposition. Let's put a cap on the home-mortgage-interest deduction and tell the suburbs to do the hell their own way. I appreciate what Cushing was saying, but the natural place for low-moderate income people to live is our old cities. There's some transportation there. There are schools that are actually improving across much of the country under real urban design and educational reform movements. There is ethnic mix. And, I have

one child, an African American, who goes to school in an all white community. I don't think that's a solution. I'd like to make the case for, say, giving the cities the resources, damn it, and we'll do the housing. We'll make it mixed income, and we'll make it work. We'll build it into neighborhoods.

CHRIS TAWA: This is the declare-victory and go-home approach.

KURT CREAGER: One thing I'd like to reflect on. I consider myself an urbanist as well, but even Portland, Oregon, saw a greater job growth in its suburban ring than it did in the central city. Most of the comeback cities, even though there are signs of great urban reinvestment and renaissance, if you look at the actual fundamental job growth, it's suburban. Until you crack that nut, we won't get to where you want to go, I don't think.

One other thing I'd just like to toss out is that the stealth strategy only works if you've got a portfolio of housing that you would allow anybody to inspect, drive by and be proud of. In other words, we've done a lot of things under the radar in Vancouver, but, ultimately, I have to pass a bond-inducement resolution. I have to sell bonds. It gets in the newspaper, right? It would only work if the public housing stock sparkled. It only works if you've got a progressive approach to Section 8 and a rational relationship with your landlords. It only works if you've got a cooperation level with your nonprofit community, and everybody is taking care of business. It never seems to work when you've got poorly maintained public housing stock, where you're trying to do a mixed-income strategy and explain away why it is the thing you did down the street looks like crap.

CHRIS TAWA: We cannot try to think about these issues in the vacuum of just today. Many of us, as housing professionals, have come up in the post-tax-credit era, and we live with the sins of the past programs. Everyone associates affordable housing with public housing. They don't think HOPE VI. They think public housing. They think Section 8 is association with the type of social issues that Section 8 had been associated with, not the idea of a Section 8 family as being as stable as a non-Section 8, and the other characteristics that can clearly be shown.

Unfortunately, the sins of what have largely been the missteps of the federal housing programs are still with us today. They have not been pro-actively addressed, except in some relatively small measure, and we live with that. We're very unrealistic if we don't understand and appreciate the taint. We come in, it's a brand new day, we have new tools, it's mixed income, and everybody goes, yeah, yeah, but all the crime in this community is associated with the project that remains there, and that's really what housing policy is.

AMY ANTHONY: When you do successful mixed-income housing, what it doesn't do is advertise that it's low-income occupancy. It is very difficult to get people to understand what it was we were doing because the housing itself was nice and attractive and fit. We had to take local officials on bus tours and say that is affordable housing. Get it? It's not what you think.

ROBIN SNYDERMAN: My name is Robin Snyderman, and I'm with the Metropolitan Planning Council in Chicago. I wanted to follow up on the comment that Cushing shared about flipping the subject of affordable housing on its head, talking about work-force housing and sharing success in the local area and then asking for advice. In the last couple of years, there have been a lot of studies locally about how population, jobs and housing growth have created this special mismatch. The spatial mismatch is also special. But, the cost of that mismatch [is] on the environment, on the economy for business leaders, and [causing us to] look at employer-assisted housing as a strategy. There are 273 municipalities, all making their own land use and housing decisions, and there's no state housing policy giving them incentives to create affordable housing. There's a metropolitan mayor's caucus. They formed a housing task force and just this February, approved a housing action agenda and a set of endorsement criteria around housing that they want to get behind, including housing affordable to the work force and a full range of options. They got a briefing from Conrad Egan last week and are waiting with bated breath to see how our leadership responds to the report. In the meantime, I'm interested in hearing more ideas about what municipal leaders can do to create incentives for developments that are palatable for their community. A lot of housing advocates in the Chicago region

have blamed municipal leaders for not making the right decision, but, really, they are responding to their constituents.

CHRIS TAWA: Yeah, and this maybe assumes, if you will, enlightened municipal leadership, where they're pro-actively seeking tools to effectuate this result. We know an array of tools. It really is a repackaging of something we tried in 1988, but the tools are known at the municipal level. To my mind, it has more to do with the will to use the tools, and the tools have a lot to do with the incentives and the support that a municipality can create. That has to do with both the regulatory bonus side, the zoning cooperation, but there are more subtle effects as well.

Does a municipality appraise the property in the assessor's office, recognizing the lower NOI that results because of the affordable components, or provide a full assessment as if it was a market-rate property?

We find that there are tremendous differences among assessors as far as appraisal of affordable housing. A tax board here in Illinois determined that you are to assess the property based on the lower NOI as an affordable-housing property. Then, in addition to the property value, they added to it the value of the tax credit and provided real estate tax assessment on the value of the credits as well. Obviously, whatever they gave, they then took back. And, my question was, "Geez, did that go beyond even the market value of the property – and, hurt you even more, thank you very much!" The medicine was worse than the disease.

We find some rather subtle ways that municipalities affect us. Another example is architectural standards and building standards within communities. You very easily backdoor ways to completely inhibit affordable housing development if you set the standards to which people have to build so high. I don't mean just large lot size but also in terms of physical configuration to get your building permit pulled. Clearly, it's a way to discriminate against lower cost housing. Municipalities don't support manufactured housing because that has a bad name. Clearly, manufactured housing can hold the cost down and be perfectly consistent with the design considerations of a community. So, we have tools at our disposal at the municipal level that are known to us, but we lack the

will to use them because of the other forces at work within municipalities. Everybody has to get re-elected, and who votes – it keeps going back to that source. Low-income voters are not a strong constituency, clearly. So, I don't know that additional incentives or other tools is going to be as useful if we don't have ways to force their use.

One item that triggers enlightenment is transportation. If you've got freeways that are clogged up – Atlanta's the worst-case scenario – where the commute was 20 minutes, and now it's an hour and 20 minutes. They have had such sprawl that they're finally realizing that they've got to do something to bring the people in closer to where the jobs are. They still have a vibrant central business district. There's plenty of job growth in suburbia, but there's plenty of existing jobs for low- and moderate-income [people] right downtown, and there hadn't been the housing there. I do a lot of work in Northern Virginia, so Arlington County's the classic example. They then figured out that they have to create incentives to create the housing. Most of it's preservation there but a lot of it's redevelopment. They have used as many tools as you can think of to build housing in their marketplace. It was really when they realized that their freeways were so clogged they had to do something.

AMY ANTHONY: I'm not as negative as you are, Chris. I do think that how these tools get put together can make a difference to acceptability. I was at a meeting in my neighborhood about a town site where I heard a resident say, "I'm really very, very supportive of affordable housing. It's incredibly important. I just don't really think this location." I thought to myself, how many times have I heard that in my lifetime? But, I'm prepared to say that she meant it genuinely. People do mean that and feel that, so, we have to somehow thread through that issue.

Architectural design can moderate against affordability. That's clearly true. On the other hand, some level of sensitivity in design issues can make housing acceptable when it otherwise isn't. Similarly, attention to local preference issues can matter. People have to make a connection between what feels like a personal sacrifice in terms of the threat to the value of their home by something going in down the block. It has to have that connection for people to understand where their role is in implementing it.

CHRIS TAWA: I would argue that maybe in that individual's mind, it provides more support for "we need houses for policemen, firemen, and teachers," than it necessarily means affordability as in the 30 percent median.

AMY ANTHONY: Not necessarily. It depends on how you define it. The guy who lives in that nice neighborhood that owns the drug store, does he want to be paying more than minimum wage for the people that are behind the counter. No, he doesn't.

KURT CREAGER: There is a cost shift that occurs. We've enjoyed working on the West Coast, where we have had ordinances on the books that give the public housing authority outright exemption from impact fees and system development charges. Frankly, in the last iteration of those ordinances, we suggested that those be moderated somewhat because there was enough of a cost shift to the private developer to create hostility among people that we would otherwise like to have as partners. So, I'm willing to actually look for a little more equity somewhere else to avoid poisoning the well.

The other thing that I've often argued for – although it's difficult with our Constitution because nonprofits are still considered private entities and we have some constitutional prohibitions on lending credit to private parties – in exchange for covenants and long-term rights to buy back the property if the nonprofit ever becomes insolvent; that they have the same right to access that we do as a public entity. But, there is a cost shift that happens and, if you get into a major production, the cost shift becomes pretty obvious.

What that suggests to me is a couple of things. One is that you have to be willing to piece together the revenue sources from local governments so nobody sees that sum all at once. If you're really trying to buy down the affordability of a project from market to affordable, maybe you're looking at a 40 percent of value. Well, you can't afford, politically, to have that in one sum of money. You've got to be willing to chip it together.

GARY LOCKE: (I've confirmed this on Washington state Web site), our governor, just signed a \$10 document-recording fee for every one of our 39 counties. Not only will we have a state housing trust fund, but

we're going to have 39 county housing trust funds, as well. Every one of those counties will now have walking-around money to help offset some of these impact fees.

The other thing that we found terribly successful in the early '90s was that we began buying, in a counter-cyclical fashion, sites that were within a six-year service territory for urban services, sewer, water and roads. We were speculating, but we were land banking. And, this year, we are now bringing to market the final of those land bank sites that were then put up to bid for private partners.

A public agency can take the speculative pressure off of land by land banking, using their own project reserves to hold that land for five or 10 years and then bring it to market.

In the case of the tax-credit deals, all of our tax-credit deals are actually owned by the authority and leased to the partnership. It takes them out of the taxation environment entirely, so we don't have to argue with the tax assessors at all about valuation.

MARK WELCH: What can you do in lieu of no big-state scheme? The example I would give would be Loveland, Colorado. It's not a ski resort. This is the town maybe 20 minutes north of Denver, where people actually send cards on Valentine's Day to have them re-routed to people so that the stamp says Loveland.

Anyway, Loveland is not exactly a suburb of the Denver metro area, but it's become really a bedroom community. And, this is where the answer is very low tech. They had arguments in the city council about [how] we've got all these jobs happening in our area and new shopping centers, but no place for people to live. These are folks that do not talk about housing every day of the week. So, when they hear affordable housing they think about public housing – Chicago – Cabrini Green and don't want anything to do with it.

About two years ago, the issue became more important to them, and they set up their own little affordable housing task force. The city council guy who's the most opposed joined our little committee. He came in and said, "Alright, I want everybody to know where I'm starting from. I am opposed to all this affordable housing stuff and government-

assisted housing and all this kind of thing, and you're going to have to get me to move from there." That was the opening night.

Fast forward – over the next nine months he and other people who don't do housing every day of the week came to understand much better how this wasn't going to kill them, and that it was actually going to help them. They put together a number of resolutions that they didn't have a lot of money to start, but they created the will. And, it's amazing, then, how it will, over a period of years, kind of drift up the ladder and change the vote. For example, the Loveland representatives in the state legislature – instead of them voting against everything, they vote in favor of everything now.

CHRIS TAWA: I want to get to the segment of the agenda that discusses the subsidy programs we have available. We've explored the market and the regulatory tools. Some of the issues are at the local level and this one is crucial. Mark essentially runs a public bank in many ways, and he has resources, but the allocation of those resources sometimes is done, and at least from my own personal experience, reactively. Deals come in and you react to the deal and the person that's carrying the ball is whoever is the proponent. The one area in which we see that agencies can be pro-active is through things such as the qualified allocation plan, in which we can embed policies and say no. Instead of our reacting to you, the market and the developers have to react to the state's priorities that are imbedded in this plan. So, we should examine those plans to see if those plans are in synch with or out of synch with the goals that we're trying to evolve here.

Before we necessarily comment on whether the qualified allocation plans are appropriate, we have to step back and acknowledge that we have certain results that come about in this industry because of how investors act, and the nature of what they're looking for or not looking for. We can have the qualified allocation plans that are very properly focused. If the investor community and the lending community will not accept that, then we will not have much success with that plan. I wanted to include within this some of the mischief that is imbedded in our programs that causes us to reward projects of very high cost because it creates the most basis for which we can form a tax-credit investment. These projects

have primarily 100 percent concentration of low-income, because again, we have the most basis-eligible units. These projects are large because, it's a lot easier, and everybody wants to do the large deal in which there are a lot of fees versus the small deal that looks for a home. Before we even get to the QAP and what it says, we have to get to the dynamics of these programs. I know that this is part of the Millennium Commission's charge – to examine whether it's time to revisit how the tax-credit program incentivizes or dis-incentivizes certain housing types.

Another concern is that many of the investors are investing for CRA-related purposes, in addition to profit sheltering. And, they're not real interested in supporting market rate housing, or taking market-rate rent exposure. And, so it's a little difficult to sell them on what we're examining here, which is a model of up to 70 percent market and 30 percent low-income. That just doesn't play with the vast majority of investors with whom I've ever worked. They're not in it to invest equity in market-rate housing. If they were, they'd be out there with Post Properties and Trammell Crow doing what they do.

So, we have an inherent problem accomplishing this through our programs. It challenges us to also examine the tenets of the tax-credit program. Until we do, addressing a well-thought QAP with proper focus on balancing these interests is sufficient.

AMY ANTHONY: I remember very vividly sitting in my conference room in state government after the demise of the Section 8 New Construction program trying to invent a production vehicle that we could use at the state level and, coming up with a mixed-income approach that had 70 percent market and 25, 30 percent low. One of our developers, Walter Winchester, from State Street Development, was sitting there saying nobody will build housing if it isn't 100 percent operating subsidy guaranteed. It just won't happen. It can't happen. And, of course, it did happen. So, I believe the investor world can follow. They will do things if we can make the programs provide the right set of incentives.

There are places where tax credits are market. In those places, it's hard to have something higher. But where taxpayer projects typically serve below the market, the allocating agencies could design those so

that there was only a portion that was tax credit. Everybody knows that 9 percent credits were oversubscribed in most places. Let's use that oversubscription in a way that leverages some impact we'd like to see.

There's a lot more linking up of production to vouchers that could be done. It's easy to do, and, frankly, it's important. These healthy areas we're talking about have not been where poor people have been living. If we hope to get those low-income people near where the jobs are, we've got to provide more access to certificate holders to the housing that's getting developed in suburban areas. We just have to use the QAP [Qualified Application Plan] and the state mechanisms to do it.

CHRIS TAWA: My recollection of the programs that were developed in that era is that they spread operating subsidy across the market-rate units in addition to the affordable units, so that you could reduce the operating cost and thus induce the owner to do so. That then proved to be very controversial, which is another issue that shadows some of our discussion, which is, how much subsidy do we apply to the market-rate side of a project to induce the low income side of a project? That's a very politically charged issue because we're taking scarce resources and not using it for the targeted population.

AMY ANTHONY: That's correct. There needs to be the courage to do that, if the goal is clear, which is mixed-income housing, and getting that production.

KURT CREAGER: I find the QAP to be a terribly blunt instrument to achieve the social vibrance in a suburban area that we're talking about. In Washington state, there's actually a private activity bond set-aside for housing authorities. Not just the state. So, we have proprietary pressures. In other words, we can apply for our own set-aside for bond cap. We can, if unsuccessful in that round – and we were successful with two deals in the last 60 days – apply to the state for another round. And, of course, on re-pooling, we can apply a third time. So, we get three whacks at the piñata in terms of allocation.

So, I do pay attention to the qualified allocation plan. I find it terribly inadequate, terribly blunt. To the extent that the commission is taking a fee for originating a deal that is insured by Fannie Mae or some-

body else, they don't really have the same stake that I, as an owner have, in the economic performance of that deal. So, until you can link the performance of the portfolio to some reward system back to the states, I'm not sure that you will ever really get the precision that we're talking about.

BRETT SHEEHAN: I'm Brett Sheehan from Corvallis NHS. Corvallis is a town of 50,000 people. We've looked at our numbers, and we need 7,000 affordable units. We're short that many based on our numbers. Of those, 5,000 are in that 30 percent AMI range. Knowing that there's a huge need, and then subsidizing more mixed-income housing and subsidizing those market-rate units just feels very uncomfortable. We already know we have a huge gap, and I'm torn on that.

My other comment is on the units serving 30 percent AMI. One of the ways that we've been able to build those by doing mixed-income housing, whereby our market rents are close to the 60 percent tax-credit rents. We do 50 percent rents and 40 percent rents and also six units in a 50-unit project at 30 percent. One of the ways of trying to deal with the 30 percent population in a public setting is talking about the fact that there are special needs and getting people to think of it that way. We try to present them as the physically disabled households or some of the other special-needs populations that are on the \$512 SSI and need rents of a \$450.

AMY ANTHONY: It think it's a rare community where that's a sell.

UNIDENTIFIED PARTICIPANT: The QAP, which I see as a blunt instrument, can be used by the communities themselves. The local county or city that wishes to use it to meet their policy goals have actually taken the idea of being able to fund, on a general obligation bond basis, the parking garage. They use their moral obligation as a letter of credit so they can buy down the cost of debt to make it work more effectively. Then they have developers in their community that they team up with and apply for credits as a team effort.

CHRIS TAWA: Which works if you have Arlington County's rating.

UNIDENTIFIED PARTICIPANT: Right, it's a triple-A rated county. But, I do think there's a way to make

what is a nice program work better if you team up in advance. So, developers actually go to their community and say, let's partner, and then let's apply.

AMY ANTHONY: In response to your notion of the political unpalatability of subsidy resources going into a mixed-income deal, as opposed to 100 percent low- there are lots of ways to help a deal happen, and they're not all as visibly difficult as direct subsidy to the market units. If we're serious about mixed-income housing, one of the real implications is that it matters to get housing located in areas where we're not going to get 100 percent low-income housing and where jobs are. [These are] places where poor people, otherwise, are simply not welcome. That's a goal that ought to be important enough that we contemplate all the ways we can make it happen.

CHRIS TAWA: One of the players that we really haven't touched on yet in this discussion is some of the public housing authorities and what roles they can play. I asked Rod Solomon to join us at this point. Rod has some information on some emerging thinking about how public housing authorities can be more effective in allocation of their resources to affect the mixed-income model, and it's a new proposal that we have the benefit of being briefed on.

There's another important point I wanted to touch on in this session. If we agree that a healthy urban-suburban market is also a point in time in which a transition may be taking place, in which growth and new investment is going to be squeezing out that affordability, then we must focus on preservation. [We must] be able to preserve the existing resources for work-force housing and resist the tide of gentrification and loss of whatever remains of the existing affordable housing resource. In our subsidy programs, one area that we seem to be woefully lacking is a program that's effective for acquisition and light rehab that would come with an income-restriction element for continued affordability. Some of our preservation programs have been also very expensive programs. But, I don't want to deal just with the HUD stock. I want to move beyond that to say that, in a healthy market, we can observe that the affordable housing stock will generally be of lower quality. And, in the process of being turned to market-rate housing, what kind of a program might we recommend where we could step in and create the right mix of incentives to try to at least affect an acquisi-

tion-like rehab model?

This one is tough. I really think it's the toughest one.

AMY ANTHONY: I really do believe that some of the principals in the market program work very well as an acquisition-and-light-rehab model. It works off of the potential subsidy of the write-down of the existing FHA debt. It works very well to reconfigure the deal, do the work that's necessary, set a level of reserves that can work for the long term, and really emphasize the healthiness over time, as opposed to the heavy up-front fee context that we're used to in affordable housing programs.

Having said that, I do think that the 4 percent bond program has great potential as an acquisition tool to allow that kind of rehab level. The 4 percent money can go to generate all those jobs that are going to drive up the cost of housing and make it less affordable. There's been such focus on 9 percent credits by the finance agencies, perhaps they haven't thought about some ways that they can more actively use that 4 percent bond money, and go and fight for the share of that pie that they could get and could use. Preservation's a great vehicle to do that.

KURT CREAGER: The Millennial Housing Commission's recommendation, as it relates to the exit tax, may be the single largest beneficial step forward in this area. We have many owners who are poised to sell multistate portfolios en masse, if they had a tax reason to sell.

AMY ANTHONY: Let me flag one vehicle that we have used in Missouri which Illinois has also recently passed. The charitable donation credit in Missouri has worked very well to generate relief against state taxes. It's a shallow enough subsidy that it generates enough money for the seller to deal with limited partner tax liability. And, that's been a very useful vehicle for us.

MARK WELCH: This is a good one, and it worked for two years. Colorado created a state low-income housing tax credit two years ago with an emphasis on preservation. Unlike the federal credit program, in using the state credit a dollar spent on acquisition was the same as a dollar spent on rehab. [Each earned a 9 percent credit.] We took advantage of that to do some preservation deals. It worked like a charm for the 500+

units we were able to do it for. Unfortunately, the state legislature discontinued the state credit three days ago.

MATT PERRENOD: I'm with the Housing Partnership Network. I would add that, as state and local governments begin to generate more subsidy sources, those become an incentive to get to the lowest level of affordability. It begins to be possible. For instance, in Florida, with their SAIL [State Apartment Incentive Loan program] funds, you can get a large enough chunk of subsidy that you can get a wide range of affordability from 80 percent of median potentially all the way down to 30. Washington state now has its document tax for the county. There is a gradual trend nationwide to take this issue seriously.

ROBERT SPANGLER: I do a fair amount of 501(c)(3) bonds. The public activity bond cap is terrific. You create 15 percent equity on day one so there's no reason you shouldn't pursue a 4 percent deal. Sometimes, the state just doesn't match up from a timely standpoint, particularly if it's in a market where their rates are active. If the rates are active, they have access to equity dollars that makes them very competitive. The only way a (c)(3) or preservation deal could occur in that market [is if] it's perfectly aligned with the allocation process with bonds, which does occur. And, some states are first-come, first-served, and those work terrific.

AMY ANTHONY: And, doing preservation set-asides, too.

CHRIS TAWA: Another thing that occurred in the evolution of the underwriting standards for Fannie and Freddie is that in the past few years, we're now able to recognize if the nonprofit has an abatement.

We got comfortable with that because of the growth of the nonprofit development community. That gave us the comfort that, in the event of foreclosure, we could do essentially a closed sale and identify another nonprofit that would step in, assume this obligation and preserve the abatement. The (c)(3) bonds with that tax relief is moving us towards 100 percent financing.

KURT CREAGER: One other hybrid is the local housing authority, which can issue (c)(3) bonds on behalf of a nonprofit. We've been around for 60 years, and

we have a business model that allows us to at least predict we'll be around in 60 more years. As we enter into 501(c)(3) relationships, we're actually willing to issue [them] at cost without a loan fee added, in exchange for a first right of refusal to buy the property back. So, the underwriter has the comfort of knowing that this public agency is standing behind the deal in year 50. We're not having to put out that much public capital, but we are preserving, for perpetuity in this case, the affordability of the unit.

UNIDENTIFIED PARTICIPANT: With regards to the abatement, Texas is a good example. They've created abatement on property taxes up to the percentage now that it's below 80 percent of median income. That program is on hold as the state looks at what it wants to try to do. What has happened is that a number of national nonprofits bought portfolios from REITs, generated very large transactions and purchased a number of units. The political forces in Texas have said, "Is that preservation when most of the units that they're acquiring, are market-rate units?"

It has hit a roadblock in Texas because it comes back to schools, to the local jurisdictions worried about their tax base and losing that tax base. People are buying 2,000-unit portfolios. That's a large chunk of the tax base for some of these communities.

It shows that the term preservation means a lot of different things. At the local jurisdiction, when a guy sees an apartment complex and knows that it's a market-rate product that just went off the tax rolls, it's very hard to maintain a policy that otherwise can be used for good purposes.

CHRIS TAWA: Thank you all.



***ROD SOLOMON is a deputy assistant secretary at HUD in the public housing and voucher area. He attended the Symposium to describe a proposal that's in HUD and the President's budget for fiscal year '03. It is before Congress now.***

ROD SOLOMAN: Basically, it's a voluntary initiative. Housing authorities could decide to take their public housing subsidy and convert it to project-based vouchers. They could decide that they would rather have the project-based vouchers, and finance against them. The whole idea of it is to find another way both to raise money for what's now public housing and to let them raise money on a property-by-property basis in the same way that all other real estate works in the United States. This would look much more like project-based Section 8 that we've known. Housing authorities or their subsidiary owners would have the same kind of use restrictions that public housing has – basically, 20 years for renovations and 40 years for development. This could be on current sites or other sites. But, if they started off with 100 units of public housing, they could decide to replace it with the project-based vouchers and borrow against it.

There are some income mixing provisions. In any event, public housing goes up to 80 percent of median, even if it remains all public housing. It's been confused with voucherizing out. It isn't voucherizing out. As part of it, there is a proposal, which says that for up to one-third of the units, the owner could rent to unassisted tenants. And, wherever that happens, could use that many more vouchers in the community. That part of the proposal is very controversial with Congress. I'm not sure what will happen because that's the part of the proposal that is voucherizing out. The idea is that it's project-based and the contract stays with the development. It's a way to get public housing financing in the mainstream, have it done the way other financing is done, and give people another option of how to raise money for these developments.

How well it will work depends heavily on what kind of rents these places get because the rents would be tagged as market rents. Housing authorities could supplement the money with other funds. For instance, if their market rent supports \$30,000 a unit but they need \$50,000, they could make an up-front choice to put capital funds to supplement it, as

opposed to a situation where we've had a \$20 billion dollar backlog in public housing capital for a long time. The hope is that we could get some significant additional capital into these places and do it in a manner that brings in private lenders, gets other people interested and gets more people looking into how can we make these places better than we've had in the past.

Q: What is also the receptivity of the investment and financing community to saying that I can lend against that or I can invest against that. That relates to the term of the Section 8 commitment. What would that term be?

ROD SOLOMON: There were folks here from Standard & Poor (S&P) whom I saw yesterday about how you would rate these things. Even though Section 8 has always been renewed year by year, do you really have to discount it totally? Or, can you consider it a little bit of a different way?

Part of the proposal is to establish a loan-loss reserve to try to bolster credit. With that issue in mind, I would be the first to say that it has a lot of developing to do in terms of how that part of the proposal would [work].

Q: As a lender, we address the potential cliff in the continued funding by establishing a reserve at the project level, which we call a transition reserve in the event that the Section 8 were to be discontinued. So, you could do capital-loss reserve within your program [that] the lenders [or] investor will require at the project level, which is a drain on your source of funds. Do you have a program that will lend against a Section 8 premium? That was the premium above the tax-credit-limited rent?

ROD SOLOMON: We're not assuming that it would get any such premium. We're still assuming we need something along the lines of a loss reserve, whether you structure it like a transition reserve or not. Some of this could change over time. We also think that significant financing will be able to happen.

Q: As a local housing authority director, I'm a big believer in local determinism. So, anything that provides more options to local authorities within a realm of reasonableness, we should be open to. I can see some reasons why a local housing authority might want to do this. If, for example, you are predominantly a Section 8 agency, with a very small public housing portfolio, you essentially have two side-by-side business models.

Therefore, you might want to convert your public housing stock to project-based, so you have one regulatory regime instead of two regulatory regimes. If you are in a high-cost area, Santa Barbara County, for example, where you could have no difficulty attracting private investment interest, even with short-term contracts, I could see a reason why that might be helpful.

And, then, finally, maybe linking this to Roukema's proposal to allow HOME to be used as a Section 108 style guarantee, where you could actually guarantee the performance of the rents through another cash stream available from local government.

Q: We've been talking to different housing authorities around Colorado about this option of conversion. I haven't seen a lot of enthusiastic response to it. I'm wondering if there's a disincentive in some way to the housing authority when they convert to project-based from a public housing unit. Do they lose some administrative funding?

ROD SOLOMON: Well, you must realize that there's a historic grantor-grantee relationship with HUD, which causes the grantees to be suspicious of change. We are the crown princes of the unfunded mandates. For the same reason, Section 8 home ownership, while it's a very good idea, economic and social mobility is enhanced, there's

no more of a fee that comes with that option. You have to devise a whole new program out of pocket or out of thin air. This has an element of uncertainty. Housing authorities that are willing to deal with the ambiguity of uncertainty will explore it, and those that aren't, won't. So, you will see some that pursue this as an option.

Q: We have 20 units of low-rent public housing. We couldn't pass the test because our market rates start at \$700 whereas we can operate our public housing units at \$300 or \$400 a unit. The question I have for you is this: Would this replace the operating subsidies and the capital fund piece?

ROD SOLOMON: Yes, it would. You would end up with 20 vouchers. It would not be public housing anymore. We've done modeling around the country, and it really varies; it may cost more or less than public housing. The situation you're describing, it sounds like, to your benefit, it would be a higher subsidy.

Q: It would be great, a higher subsidy. The question is whether we will be using the payment standard form for Section 8 vouchers.

ROD SOLOMON: It would be capped the way project-based vouchers are now, in that there's a maximum payment standard.

# Blighted Urban Submarkets

**Moderator:** *Sandra Henriquez, Administrator, Chief Executive Officer  
Boston Housing Authority*

**Panelists:** *Michael Curran, President and Chief Executive Officer  
The Enterprise Social Investment Corporation*  
*Agustin Dominguez, President, Greater Miami Neighborhoods Inc.*  
*David Saltzman, Deputy Commissioner of Developer Services  
City of Chicago Department of Housing*  
*Christopher Shea, Director of Special Projects and Planning  
Housing Authority of the City of Pittsburgh*

SANDRA HENRIQUEZ: We will be having you talk and share with us what it means to develop mixed-income housing, if that is the way to go in; how to tackle that problem, and what the issues are as we go forward.

MICHAEL CURRAN: Let's start out with the definition of a blighted urban neighborhood. It is where the median is substantially below the general area median income of the particular neighborhood. It's an area which investors typically avoid, because there is a perception that there's inadequate demand for market-rate housing. So, how do you really rebuild blighted urban neighborhoods? That is, how do you attract higher-income households to these areas and how do you help raise the income or job prospects for those people who are at that lower level of the income spectrum in these areas? How do you balance the physical amenities and packages of a project and be able to attract people to come into these areas while still not displacing people who are already there – the whole gentrification issue? And, lastly, how do you really encourage people to live side by side who come from very different ethnic, social, economic and cultural backgrounds? And, is that necessarily something that we really should be doing or not?

The questions that we wrestle with today are along these lines. What is mixed income, and what makes mixed income successful? Is mixed income always a good idea in blighted neighborhoods? And, does it really help to rebuild a neighborhood or not? Does

home ownership provide mixed income? Does that replace mixed income in the rental spectrum? What are the key methodologies that we've learned that have made these mixed-income projects, successful or not? And, do the existing financing subsidy tools that we have really fit a mixed-income strategy?

SANDRA HENRIQUEZ: Does mixed income really benefit a neighborhood that is in transition and what should it look like? Where are the breaking points? Where's it successful for long-term sustainability?

MICHAEL CURRAN: I see two versions of blight. Blight in neighborhoods characterized by substantial amounts of vacancy and abandonment and [the deterioration of the social fabric at] work there and neighborhoods not characterized by substantial amounts of vacancy and abandonment.

CHRISTOPHER SHEA: My experience in Pittsburgh is that we really do have two examples. We have neighborhoods that fit anyone's definition of blight, where there really are no economics, a lot of vacancies and a lot of devastation. Those are situations where our strategies tend to focus on creating, from whole cloth, an economically diverse neighborhood. And, that's a very expensive, very long-term, undertaking.

We also have examples of neighborhoods where there appears to be significant stability. And for Pittsburgh, the market really wants to work, but isn't quite there. One of the things that was holding the

market back was distressed public housing stock. Our response there was to eliminate the distressed public housing stock, and to build back, using the existing diverse fabric of that neighborhood, a long-term, affordable, low-income rental product that could be protected against the vagaries of gentrification. And, at the same time, would remove the blighting influence of the older public housing stock and allow the market to take off.

Both examples demand different strategies and have enormously different cost implications. The first one requires you to identify resources to build a so-called market rate or unrestricted rent component, which traditionally, you don't do with public funds, but you're going to have to do anyway. Whereas, the second example is one where you're limited to building a single product or a couple of products. The job ahead of you is more discreet, more defined.

When you talk about mixed-income strategies, it is important not to look at it on a project-by-project basis. You really have to look at it on a neighborhood basis.

— David Saltzman

DAVID SALTZMAN: It's an important distinction. Chicago's experience is interesting. If you look at the types of investments that the Department of Housing made beginning in the late '80s through the mid '90s, it was in communities for which we were able to attract investment from the private sector and characterized by a lot of existing housing stock, with little vacant land. The typical project that we did in those areas was rehab of buildings that either were on the brink of abandonment or were already abandoned. So, there was almost a preservation mentality that drove policy. The typical tax-credit or HOME project in that period was almost exclusively rehabilitation. Now, it's almost exclusively new construction. The neighborhoods that seemed to have the competitive advantage, particularly from a mixed-income point of view, are the ones that you're creating from whole cloth. The home-ownership component is vital. It's less costly to produce. There's some initial subsidy that might be necessary when you have what we call an appraisal gap, where the cost of building the home exceeds its market value.

That has changed dramatically over the past five

years, where the need of a deep subsidy to spur market demand has declined. So, we're achieving a lot of mixed-income goals because we're creating for-sale housing interspersed with new rental housing. It's costly, particularly, the rental housing piece is extremely costly, and the market can't take care of it. It always needs a subsidy. Usually, at a certain point, the market takes over on the for-sale side. The city contributes land in these blighted areas because it tends to have a lot of land and will give the land away for development.

When you talk about mixed-income strategies, it is important not to look at it on project-by-project basis. You really have to look at it on a neighborhood basis. We all recognize that, with the tools of tax credits and HOME, it's somewhat difficult to do mixed income. In a blighted neighborhood as we've defined it, market-rate rental units never subsidize

the affordable, low-income units. In fact, when we do a rental project and we have 20, 25 percent market rate, those units require subsidy also. It may be a mixed-income project, but it's 100 percent subsidized. One of the challenges is getting enough affordable rental housing that's unrestricted, which points to some of the issues with federal policy that are hard to challenge. But, those of us who work on these deals on a project-by-project basis all understand that you don't want to subsidize unrestricted units. On the other hand, if one of our goals is mixed-income housing, then we have to recognize that to make a rental unit attractive to a person who's over 60 or 80 percent of median income, we have to write down the cost of that unit.

AGUSTIN DOMINGUEZ: We are a nonprofit organization that has developed about 6,500 units of affordable housing in the Miami-Dade County area; mostly, in what would be a defined blighted neighborhood. These are problems that go way beyond housing. To attract people who have choices, it takes more than a pretty building or low rents. It takes things like good schools. It takes things like places to

shop, things that my organization has no resources and has no ability to control. So, we decided very early on to define our client as the very low-income family. We can't be all things to all people. We will go in and try to make whatever housing we can develop as affordable as possible to the lowest income families we can find in these neighborhoods. And for the most part, if you're talking about below 30 percent of median, you need subsidy. You need ongoing subsidy for that housing to be sustainable. Cross-subsidizing doesn't work in these neighborhoods. Somebody at 50 percent of area median is the top of the market in a neighborhood in which the median income is probably at below 30 percent.

Where we've been successful in doing mixed income is in programs like the old HOPE III program, where we would go in and take FHA for closed housing in middle-class neighborhoods, rehab those units, and put a very low-income family there using subsidies for home ownership. Then, nobody in that block knows how much that family makes and the families integrate very well. To do mixed income, you're talking about a range from 10 to 50 or 60 percent of median, that's the best you can hope for.

The notion of services is another issue that cannot be financed by the real estate. The real estate in these neighborhoods has enough problems without trying to impose another set of expenses and pretend that we can finance that through the income on those properties. The properties cost more to maintain. The insurance rates are usually higher because the insurance companies perceive that there is more danger to the property in blighted neighborhoods than there is in the suburbs.

We protest the real estate taxes because they are based on cost, not on income. And, it's a problem every year. It's the whole notion of a lot of local governments, state governments and foundations asking nonprofit developers in neighborhoods to try to be all things to all people and to solve the problems that have been created systematically for years. Nonprofits who fall into that trap are not going to be open for long.

SANDRA HENRIQUEZ: Have you tried building in urban neighborhoods serving a population that is above the tax-credit limits? Above the 60 percent AMI and mixing it that way?

JOE GARLICK: I work in Rhode Island. We did our first couple of tax-credit projects in a neighborhood that was more devastated than any other place in the city. Once the units were done, we had incredible demand [for them], although I was cynical that it would ever work. We have a huge waiting list. A lot of the folks who applied were actually fairly well off. Of course, the units were restricted up to 60 percent of median. It was the first glimmer that there may be some market demand beyond the income targeting that we had to adhere to. It just sparked some interest that maybe we could attract other folks to the area.

MICHAEL CURRAN: What was the rationale for people being interested?

JOE GARLICK: Our units were a little bigger. They were more than what people could get on the market. We had a lot of three- and four-bedroom unit apartments with nice landscaping. They were abandoned houses. We got them through the FDIC, RTC, our state bank bail-out agency.

MICHAEL CURRAN: Yes, in a lot of the communities that we're talking about, there's an absolute lack of new product. Whenever a new product gets on the market, it goes a long way toward pushing aside some of the barriers that people might have about the neighborhood. It's a physical manifestation of some significant capital investment in the neighborhood, and that's very powerful.

JOE GARLICK: Yes. In 100 years there had been no new construction. There's a lot of subsidized housing in our area, but the units are small. They're not attractive at all.

SANDRA HENRIQUEZ: What do you find is happening now around the development that you've built? Is there more stimulation?

JOE GARLICK: Oh, absolutely. It was a significant project in a 15-block area. People were just talking about bulldozing the neighborhood before we did this, and now there's a lot of interest in home ownership. The investment in the rental led the market.

DAVID SALTZMAN: That's very characteristic of our recent experience in Chicago. In some instances, it's been led by rental. You would have a scattered-site-tax-credit project on in-fill lots. You do 80-120 units

on 20 or so abandoned lots by creating new two flats three flats, and six flats. Our experience was that it increased the property values of surrounding homes so that the homeowners are able to obtain home-improvement financing. Previously, they couldn't just because of the loan-to-value issues. Then, it obviously stimulated a for-sale market.

Another major factor recently is that so many households in Chicago have been priced out of certain markets. They've been forced to become pioneers in other areas. It's somewhat controversial but gentrification has occurred in certain neighborhoods such that first-time homebuyers, for example, can't afford to buy there. Well, what do they do? If they want to stay in Chicago, they have to go look in other areas. That has been a tremendous factor in creating for-sale housing development in communities that haven't seen rental housing development or any kind of development in 30 or 40 years.

That's an economic force that you can leverage. The city contributes free land, which is a competitive advantage that any municipality can have. Where you don't have that land and you have speculative land-banking going on, it could slow down investment. So, the recent economic boom in housing prices has resulted in our being able to leverage investment in blighted communities because we had a lot of land there and were able to offer people a bigger home.

JOHN PRITSCHER: Where 50 percent of area median income is the top of the market, most of these neighborhoods have a lot of substandard housing. We, Community Investment Corporation, lent on 2,900 rental units last year and rehab of a multi-family. The saviors of these low- and moderate-income neighborhoods will be the hands-on owners who work with no subsidy because there is no subsidy to compare to the size of the problem. There are 100,000 substandard units. If you were to take \$10 million, and if your average subsidy was \$100,000 per unit, you would do 100 units. If you had \$10 million in subsidy and your average subsidy was \$4,000 a unit, you would be able to aid 2,500 units. I'm making a case for small subsidies with no delays or added costs in low- and moderate-income neighborhoods. Still, the great majority of the units in these neighborhoods will have to be done by people with no subsidy.

I'd say 30 percent or even 50 percent of median need subsidy if they're not going to pay too high a percentage of their income for housing. But, I've heard that 25 percent of people who qualify for public housing are in public housing and 75 percent aren't. If you go up a little higher to 40 percent AMI, you'd probably get to 80–85 percent who are not in subsidized housing. So, when we're talking about neighborhood revitalization and affordable housing, we need to think of more than deeply subsidized housing, and see the resource of the small hands-on cost effective developer that works in their midst. We have to develop some product from the lending community and small subsidies from government. The product from the lending community will often be loans over 80 percent of value, based on cash flow and debt coverage, rather than loan to value. There are really good developers that are doing a lot of this in Chicago.

MICHAEL CURRAN: Urban real estate markets are experiencing some kind of renaissance in the last half decade. A lot of these strategies, by conscious choice or good luck, work reasonably well. Since the tide's coming in, how do we steer effectively?

The gentleman from Pittsburgh threw out two different cases. In one case, we're "steering" and removing the blighting influence. He also threw out another one and walked right by this one, which is that there are selected neighborhoods where the tide isn't coming in. Somehow, we identify what these are and we row like hell. How do you figure out which neighborhoods are even worth rowing in? One of the things you get into early on in this cycle is where you have the appraisal cap and cost exceeds value. A lot of this starts out with affordable rental because that's where the subsidies are. It's not that something else wouldn't work there. There's just no gap-filling mechanism or not one that's powerful enough.

CHRISTOPHER SHEA: Sure. In our case, the most important thing is basic real estate fundamentals. There are neighborhoods that are currently blighted. They're blighted because the city of Pittsburgh is exactly half the size, in terms of population, as it was 40 years ago. That's a pretty dramatic decline – from 700,000 to 350,000. So, there are some overall market issues that really speak to the devastation in many city neighborhoods. Notwithstanding that, there are

devastated city neighborhoods immediately adjacent to the downtown and immediately adjacent to university and hospital concentrations.

MICHAEL CURRAN: A big locational advantage.

CHRISTOPHER SHEA: Right. You go to your basic real estate fundamentals. Why would someone live here? What are the location advantages of these neighborhoods as opposed to other neighborhoods that are far removed from all of that and are probably better for planting corn? Our investments have been made in those neighborhoods that are proximate to downtown, proximate to these other large economic generators. Be it investors, homebuyers or renters – all of whom are going to have the same mindset are going to be attracted to the site. It's important to take

do with working at scale. The smaller scale approach to mixed-income development may work in a neighborhood that is at 50 percent of median. But, in a really devastated neighborhood, doing a few houses at a time isn't going to keep up with the pace of decline. So, it becomes a resource question. A lot of us in this room have done a lot of work in the HOPE VI and public housing revitalization. That's a place where you're taking what, in many cases, was the worst housing in the neighborhood. All of a sudden, you're completely transforming it. You're rehousing a lot of the families that were there, but you're creating a whole new physical product, and you're bringing a market back into an area. You're taking what was the biggest blighting influence and turning it into the biggest value-creating influence. That's an enormous swing. But, it has to be done at

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– Pat Clancy

advantage of the site. For those of you who know Pittsburgh, it's quite mountainous and these isolated mountaintops have extraordinary views. We have to be very smart about the urban design, about the construction and about the layout. Most importantly, you have to be very smart about the management of the properties once you build them.

All that's basic real estate. And, it's nothing different from 100 percent market. [There are] neighborhoods in the city that we are ignoring, in terms of these large investments. You can argue that we've abandoned them, yes. There's not enough time. There's not enough money. More importantly, there aren't enough people in my region to populate a wholesale development in the Lincoln-Lemington section of my city.

PAT CLANCY: At Community Builders, we're working in probably 15 different cities doing mixed-income housing, and everything that Chris said is absolutely true. The other major dimension has to

scale. Public housing, with the HOPE VI program, we have the opportunity to do that at scale.

Cities, typically, do not have the resources to do that at scale themselves. One of the programmatic areas that it would be good to weigh in on is whether there is a similar opportunity with a lot of the private HUD-assisted inventory, which is, again, another million units. Much of it is in the same kind of markets and has gone through the same kind of process, as neighborhoods have changed, as public housing has. The potential to get a federal reinvestment to re-engineer that federal resource as the starting leverage point, to then add the city and the investment resources to make something at scale possible, is very doable.

We are working with Chris in Pittsburgh and with the city of Indianapolis, and we just got some special arrangements with HUD – only after a whole lot of real aggressive political effort because, they really didn't see the Section 8 inventory strategically. They



didn't see it as an opportunity to bring back neighborhoods. They saw it as something to cut the costs.

But the resources needed are huge. You can't work in blighted neighborhoods if you don't work at scale. Cities don't have enough money. Where are the feds going to come in? They're coming in on public housing. If we can get them to come in on the assisted inventory, there are a lot more neighborhoods that we can bring back.

AGUSTIN DOMINGUEZ: I've heard a lot about neighborhood revitalization and what needs to be done to bring higher-income people to neighborhoods. I have heard very little what's happening to the very low-income people that are being displaced by all of these programs.

DENISE KATAKIS: That's right up my alley. I'm not a housing developer. I'm a homeless service provider. A colleague of mine in Toledo, Ohio, who works for the housing authority said that in our housing development, we're looking for the perfect poor, especially when we want them to live next to people who aren't. In the population that I'm dealing with, a significant number cannot access public housing because of their past history. Either they were evicted, have a felony or drug-related activity. So, they would not be eligible for the types of projects that I'm hearing people talk about here.

In addition, we have this extremely low-income population that you're talking about that are already living in these neighborhoods. They are not engaged with public services because of their lifestyles and don't want intrusive services. They will not do what they need to do to get out of substandard housing. We do transitional housing, heavily funded by HUD, SHP, and homeless prevention, on the other end. We're in a double-digit unemployment neighborhood. But when we say, if you want our homeless-prevention dollars, we'd like you to come in and we want to talk to you about your budget, click. I don't know where they go, but they'll keep going to a church or somewhere else to try to get the money they need.

We're talking about 30 percent AMI, but we have people who are 50 percent of poverty level in significant numbers in these neighborhoods. How do you reach people at that income level where a lot of them

are already in our homeless shelters across the nation? So, the human-development side of this is often 5 percent of the conversation at these conferences. And, it needs to be at least 50 percent.

UNIDENTIFIED PARTICIPANT: There are many informal sectors in some of the neighborhoods in our cities that actually do more in an informal way to create human-development opportunities than some of the top-down governmental solutions. Human development is a much more complicated subject than housing development. The whole conversation should start and end with human development, with housing development in the middle.

UNIDENTIFIED PARTICIPANT: Underlying this whole discussion is that we want mixed-income housing because we think it creates a better human-development environment. Is it a desirable goal? Clearly, it is. If you want to have mixed-income housing, having stable home ownership in a neighborhood where you do start developing [and having] a neighborhood network, schools and services ought to help. Obviously, when you have the affordable units, you don't want to gentrify the neighborhood and be so successful that renters in that community can no longer afford to live there. Having mixed income as a goal implies that we're trying to create a better nurturing environment for the very -lowest-income people.

UNIDENTIFIED PARTICIPANT: Human development is an important topic, but the topic we're talking about here is how to create mixed income from people who are from very different walks of life, and do it in a way that gets at the human development. Some of the experience that we've seen in mixed-income housing is that, when you do have lower-income people, you really need a major service component, which complicates the project and the management requirements for the specific transactions. As Chris pointed out, you have to have good real estate fundamentals, of which management is a part. You also have to have very sophisticated property managers who can really oversee and provide those kinds of services that you're talking about to make these things successful.

DAVID SALTZMAN: It all gets down to a project-by-project basis. On a rental project, it gets down to underwriting. As a housing finance agency, what are



we going to allow in the operating budget for a rental project? The more we allow it, the more stable the long-term prospects of the property are and the larger our second mortgage will be. There's so much demand on our secondary financing that we withdraw when somebody says "I have a social service budget in my rental project here." Why isn't somebody else paying for social services? We would be less stingy if we had twice as much HOME funds. We would allow higher operating expenses. A lot of developers could easily, effectively use \$6,000 per unit in operating expenses when you take into consideration the security and the social needs of the tenant. That's easily justifiable. Can we underwrite everything at \$6,000 per unit per year on a rental project? We'd be doing a lot less units. That's the bind we're put into when the needs and the potential for revitalizing communities is much greater than

service organization. I'm a houser by profession but we've gotten in the business of human services. We understand from a human-service point of view that, for our consumers – whether they're SPMI, have a mental illness, substance-abuse problems or homeless – we can't get folks to house them unless we provide support services. We're spending a lot more energy making linkages and deals in contractual relationships with developers that say if you house our consumers, we'll provide the subsidy for that and provide the support services, which are county employees. Case managers and social workers will go out and work with folks in their homes and apartments, and make them successful in their units.

AGUSTIN DOMINGUEZ: We do have a similar partnership agreement with homeless-service providers where we have pledged to house people that are

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the resources that we have.

SANDRA HENRIQUEZ: I want to just push back for a moment. When you approach people and talk to them about the steps they need to take effectively and affirmatively to get themselves in a position, to be able to get the opportunity, you get dial tone on the other end. I could cavalierly say, "Not my issue, not my problem." But, I also know that there's got to be an investment in human development, but when that's the reaction, how do I make that connection as a housing provider to get people in the right place to take advantage of the opportunity? If you're doing housing development and putting up a new product, you think if you put something on the marketplace, everybody will come. But, it doesn't sound like that's necessarily what you're talking about.

UNIDENTIFIED PARTICIPANT: I'm from a human-

coming out of transitional housing. Sometimes, we have a master lease agreement with the provider and they take care of who is going to be in the housing. We cannot afford to provide the services. The providers have the money to do so. If there is a problem, the property managers know exactly who to call at whatever time of day or night.

UNIDENTIFIED PARTICIPANT: I'm with a small housing services organization, and we're building our first, small scattered-site multifamily project. We are partnering with the county for individuals who are coming out of their first year in transitional housing. That year, they've worked with the case-worker to try to get them to home ownership. What they have found is that, at the end of one year, they're not in a position to be able to get into the better affordable housing. We are one of the few organizations in our city that has a wait-and-see approach.

In order to get the small scattered-site going, we had to agree to a crime-free prevention program, which excludes a lot of people to get into that site. We're trying to partner with the social services to get individuals to a point that they can come into our housing. What I'm finding out is that because of the dollars we had to use, we're cutting out a whole market.

**PAT CLANCY:** We are primarily housers in this room. In creating viable neighborhoods, we are dealing with primarily a human-development challenge, and we bring housing tools to that. The limitation is that the engagement with service delivery is much more limited, much more fractured. My housing nonprofit now employs 50 people in services because we're working at a scale. We have the opportunities to do work-force programs, to coordinate what good agencies in the neighborhood are able to do and then individually attract more services in a very place-based strategy for the people that we're serving and the developments that we're creating. That's a part of what we're doing in mixed-income developments but we're working with silos. We're working with human-service funding. We're working with homeless funding. We're working with welfare, and we're working with housing money.

One of the things that the Millennial Housing Commission has talked about is the notion of giving localities and states the authority to take some of those dollars and integrate them where there is a revitalization effort that includes all of those dimensions, and where the dollars can be basically managed as one effort. The problem with the proposal is that it doesn't put any new money on the table, and people don't go through creating new ways of doing things unless there's new money. You can set aside 10 percent of your state funding as long as you match it with the new money that you're going to get from the feds. Maybe we can start to create some new models at the neighborhood level where you break down the distinctions. There are many poor neighborhoods where there are plenty of service agencies, and there are still plenty of people not getting service. The potential, from a real estate standpoint, is that the re-engineering of large residential communities, and the managing of that effort over five, 10, 15, 20, 30 years, can be an organizing point for supporting those families.

Much of the old stock has gone to hell in a hand basket because the owners didn't keep up with the changing population. They built housing for one population. The neighborhood changed, and they never adjusted. Ownership is where the fun is, in my opinion. In five years, we're going to be meeting different needs of residents. If we don't have owners that are attuned to those needs and do adjust and adapt, we'll end up with the same kinds of problems in 15 or 20 years.

**HELEN DUNLAP:** I'm struck by the fact that we've got about 16 different conversations going on. And, it seems to me that it would be useful for us to focus on any one of the 16. So, I'm going to pick one. When I look at the title of this book it says, "Mixed-income Housing's Greatest Challenge". The first thing I would say is that the focus for this conversation is around strategies for mixing income because there's the perception on the part of us in this room that by mixing incomes, we improve the lives of people and we strengthen neighborhoods. Not every person and not every neighborhood but in those places where we choose to do that.

Is that premise accurate – that mixing income does, in fact, strengthen neighborhoods? And, then, specifically, what are some policy changes beyond HOPE VI that we might want to discuss here today that we need? We've got a lot of policy people in the room. I'm standing right next to Mimi, who handles HOME. We ought to talk about how we change the dynamic, if we believe that mixing income is a strategy for strengthening neighborhoods.

**RENÉE GLOVER:** I don't think there's any question that mixing incomes is important because one of the things that we need to look at is the relationship between policy and the families. The hardest thing that we have to do in terms of creating successful neighborhoods is undoing the damage of bad policy on families. The families show up the way that they show up as a consequence of bad policy and, too often the policymakers up in Washington just ignore that. I'm in Atlanta working with a lot of families who are well below 30 percent of area median income. The question is, can we create an environment so that those families can become part of the mainstream? If we're going to be honest about it, we're going to have to spend millions of dollars solely around the issue of re-integrating the families

into functional communities in the larger society.

My own thought, quite frankly, is that we need to draw the line in the sand and just stop it. We need to stop isolating families in poverty. We may not want to look at it but in those God-awful places people are being institutionalized into poverty. Are we as a society committed to stop writing off whatever percentages of families who live in these environments, particularly in large urban areas? There are captive elementary schools in those neighborhoods where there's no learning going on. We need to reach a point of spending federal resources, state resources and local resources to provide services. If we can draw a line in the sand, at least for families and generations to come, we can do something about that.

Then we also look at what kind of supportive services can be brought to the situation where the bad policy has created a group of people. I know, in Atlanta, folks are referred to as "those people." Well, "those people" are a direct consequence of bad policy.

MIMI KOLESAR: Thank you, Renee. I'm Mimi Kolesar, and I'm one of those Washington policy-makers. I'm struck by the conversations in terms of all politics being local. The real challenge of national policy-making is to create flexibility on both ends so that people have the tools to meet whatever their local problems are. What I'd like to pose to the group is [this question]: What are the solutions on either end? What are the changes, for instance, in the HOME policy, which have some opportunity to support dealing with Miami and the need to create more stable neighborhoods, and being able to use federal resources to create developments which have higher than 80 percent of median income? Should HOME be used to help do developments which have higher-income families?

On the other end of the spectrum, I'm struck by a recent study that we did on compliance of HOME program in terms of the rents. Literally, 80 percent of the families who live in HOME rental projects are below 50 percent of median income. Forty percent are below 30 percent of median income. People below 30 percent of median income who live in HOME rental projects, who don't have Section 8 or HOME for tenant-based rental assistance, were paying 67 percent of their income for shelter. On both

ends of the spectrum, in terms of addressing the dynamics of Miami, or addressing the dynamics of New York City, what do we need to be doing in terms of making policy changes that will give you the tools, respectively, to deal with your situations?

CHRISTOPHER SHEA: Sitting on the public-housing side of this table, I don't know why you would attempt to do one of these mixed-income deals without a significant public-housing component to it. It comes with a large capital contribution. Public housing agencies have more money than God; they have a lot of capital resources. It comes with an operating subsidy to deal with the affordability issue. And, the affordability restrictions will outlive everybody in this room, right? You can layer all the other programs on top of it. Now, the transactions are difficult. The transactions bring some headaches, but there's enough experience in the industry over the last five or six years, driven by what Renee's been doing in Atlanta, that these things are now fairly routine. It's a very important tool to guarding against gentrification, because of the long-term income restrictions. It's a very important tool towards creating that additional capital necessary to actually be able to afford the unrestricted units, which support 30 percent debt at most or, often, only 20 percent debt.

So, your public housing capital, your tax credit equity, layered in there, are going to allow you to afford to produce a 25 percent unrestricted rental component to the project. It's my bias, but I wouldn't know how to begin to think about doing one of these mixed-income deals, large or small, without the involvement of the public-housing capital. Sometimes, that means the involvement of the public-housing agency.

UNIDENTIFIED PARTICIPANT: You asked about HOME. I'm not sure there's many changes we could make that would truly facilitate more mixed-income housing. The more important changes would be in tax-credit policy and in HOPE VI, or public housing, less of public housing capital subsidy. The real limitation on the mixed finance HOPE VI type deals is that there's not enough operating subsidy for the units. We need, overall, more operating subsidy to make that a more viable model. There are a number of things we can talk about on the tax credit side. Generally, on tax credits, it's much harder to do a mixed-income product. Syndicators don't like them a

whole lot. They say that they don't want over 25 percent market rate units. We've heard that a lot. There are some complications with mixed-income, tax-credit projects when you have scattered sites that seem unnecessarily burdensome, and those can be talked about. One can focus on tax-credit policy and HOPE VI policy as areas where we might get some policy changes that might improve the environment for mixed income.

AGUSTIN DOMINGUEZ: Miami was mentioned in context of the HOME program. In my own projects, I try to avoid HOME like the plague, unless I'm doing 100 percent Section 8. The reason for that is not necessarily the federal regs on HOME, it is the way they are being interpreted or misinterpreted by the local jurisdictions. It would be great if HUD started a training program for people who administer these programs at the local level who really don't know what they're doing. Like my grandmother used to say, they want to be more Catholic than the Pope. They take the federal regs, which are burden

the turbo charge gets higher if you go to 40 percent, 30 percent, 20 percent [or] 10 percent of median. A state has the ability to decide how to use its volume cap. If you're reaching 15 percent of median, the tax credit associated with that unit gets a huge basis boost. In addition, maybe there's a basis boost to the extent that the developer agrees to have more than 20 or 25 percent above 80 percent median income.

What is the realistic upper limit of incomes you can attract? People who have a choice always have the suburbs. So, at a certain point, it's not realistic to expect people making 150 percent of median to choose to live in the same development as someone making 20 percent of median. The policy needs to select a band.

SANDRA HENRIQUEZ: Are we in agreement that mixing incomes in a development in a neighborhood, whatever that is, is the way to strengthen an urban neighborhood?

Now that this industry is 15 to 17 years more sophisticated, why not have a turbo-charged tax credit, where the turbo charge gets higher if you go to 40 percent, 30 percent, 20 percent [or] 10 percent of median.

– Pat Clancy

enough, and superimpose things that they claim are in the federal regs, which are not.

Our problem locally, with federal regs, is prevailing wages. Once we get above four stories, we've got to pay workers as if we were building a 40 percent story building. Even on a five-story, it gets the cost of construction up by 40 percent. The benefit of having the money at zero percent or 1 percent or a grant is squandered by increased cost.

UNIDENTIFIED PARTICIPANT: Getting back to tax credits: It seems that the tax-credit program had the idea of mixed-income housing 17 years ago [with] the idea of 50 percent of AMI for 20 percent of units or 40 percent of the units at 60 percent AMI.

Now that this industry is 15 to 17 years more sophisticated, why not have a turbo-charged tax credit, where

UNIDENTIFIED PARTICIPANT: I'm concerned about this assumption that mixed income is the way to go in impoverished neighborhoods. We all approach these neighborhoods that we're thinking of infusing some large amount of investment, and we don't think about gentrification. We can't imagine it happening there. Or, we welcome it in some instances. And, yet, what I've seen is if a neighborhood is attractive enough to attract people to live there who are median income and above, then they become exclusively, over time, for median income and above. And I'm wondering if people in this room have thought about using land-trust home ownership as one way to deal with that because, of course, rental housing, when we get subsidies, is going to have long-term affordability restrictions. But, in a lot of the neighborhoods, it's the home-ownership stock that starts to create that exclusivity in neighborhoods. Are we just ignoring that?

JERRY KONOHA: I work for Chattanooga Neighborhood Enterprise. We have made the transition over 15 years from a low-income housing provider to neighborhood revitalization. And, broadening our mission and our understanding about the economics, the basic real estate premises that help revitalize neighborhoods very close to our downtown. I feel strongly that mixing incomes is the way to do it. We no longer are able to work city wide in a shotgun format because we can't have an impact in neighborhoods doing one house on one block. We have focused areas where we have assembled nearly six blocks right next to downtown in what had been an older working-class neighborhood and the back lots of a couple of car dealerships. We have redeveloped that into approximately 100 units on the drawing board. Nearly 50 of those will be market-rate townhouses and single-family, detached houses. We're stepping those up to market rate hoping to get from median income to 50 percent over median income.

We have stepped the sales up. We've boosted property values, we're doing the neighborhood revitalization piece that we're all beginning to be familiar with. Our most important work is to see that we continue to have that low-income presence in the neighborhood. The other 50 units are affordable, rental and home-ownership units. That is our job. We need the subsidy. I'll be happy to have the conversations about scattered subsidy tax credits. I feel that's the only way to do it. I do not feel that HOME money is very helpful. It does not give you a subsidy.

But, I feel strongly, that the percentage of mixed income needs to be a majority of market rate. The affordable parts need to be within 25 to 30 percent. My problem with Hope VI is that it does not have enough of a mixed income. We still have a concentration of poverty. We have a better product than we had before, certainly. But, we still have not dealt with the concentration issue.

ERIKA POETHIG: I'm from the MacArthur Foundation. I'd be very interested in this whether anybody has either formally or informally evaluated any mixed-income developments that they have done – either from participating in an evaluation or just collecting data on neighborhood impacts or impacts on the individuals living in their developments.

UNIDENTIFIED PARTICIPANT: We have seen the values of private real estate transactions rise 25 percent in the neighborhood where we made our investment when values in the rest of the city stagnated. That is through a combination of removing the blighting influence of the old public housing and the new investment represented by the mixed income, mixed finance and public housing investment.

We have more than just a physical real estate investment, we have a pretty significant investment in the human issues. We have a fairly successful comprehensive case management program. Ninety-five percent of the able-bodied adults have been employed full time for the last three years through the interventions of case management, job development, etc. – all of which are part and parcel of the funding of that particular project. These are the public-housing residents,

In that development, people feel fundamentally different about themselves, about their relationship to the city, about their role in life, in the life of the city. I don't have a measure for that, but I've been with those folks for 10 years, and I know that they fundamentally view the world differently.

UNIDENTIFIED PARTICIPANT: A question for the gentleman from Pittsburgh: When you brought the public-housing agency more into your development, did you face any type of stigma when you were going for mixed income? And, if so, how did you deal with that, when you were trying to attract the higher-end buyers?

CHRISTOPHER SHEA : You don't advertise public housing. Our model is that we're a lender. We don't own the building. We don't own the development. We don't operate it. We rely on the discipline of our private-development partners and the debt and the tax-credit compliance that they have. We are very, very careful in our procurement of development partners. We advertise it as housing, it's rental housing. It is another Pittsburgh neighborhood. And, when you go to the rental office, and they talk about income and rents, that's where the triage works out.

Now, on the street, people know, this is affordable. A low-income family knows what's available on the market. Believe me. So the marketing isn't directed towards that group of people because memories are

there in the neighborhood. But, on the market-rate component, it's fairly traditional marketing, and there's no neon sign that says this is part public housing. It is a neon sign that says this is a city neighborhood. It's stable. It's safe. It's attractive. Your neighbors are good people, and it works. By the way, we've raised the rents four times on the market rate side in our oldest development.

UNIDENTIFIED PARTICIPANT: Any developer will tell you that when you mix, you're going to have to discount the market rate units to some extent. It's part of the negotiating with the subsidy providers as to what is an appropriate discount. When you end up discounting the market rate, sometimes you need to subsidize the market rate, too. The market out there is very diverse, and there are people who want to buy into these developments. They're usually nice developments. They're well located. And, there are obviously others who don't want to have anything to do with it; who don't want to live side by side with public housing, and that fact is going to manifest itself in some form of discontent. But, it does not mean that these projects aren't viable. When you're thinking about the funding of these, you have to be realistic, and make sure that the market-rate units are priced at a level that is going to be attractive.

SANDRA HENRIQUEZ: We have two properties [in Boston] that are within a mile-and-a-half of each other. One end, they are truly market rate, driven by the larger market, where I have two-bedroom and three-bedroom units that are going about \$2,400 a month for a rental. They are indistinguishable in terms of design-quality amenities from the public housing units. And, they are mixed throughout, side by side, up and down, courtyard to courtyard, so that there's no segregation by economics.

A mile-and-a-half away, I have market-rate units that are at the market of the neighborhood. The market rate for this two-bedroom is about \$1,100. That is pushing significantly the market in that neighborhood that has seen home values increased about 200 percent in 18 months. It happens to be my neighborhood, so I like that. But, for that product in that neighborhood, it is also the newest stuff that has been built. It is a dramatic difference on the landscape, and it has a waiting list of 12,000 people, some of whom are public-housing eligible. And, it also has a range that goes beyond the 80 percent eligibility for

public housing up to and including beyond the market rate stuff. It's not touted as public housing. It is part of the continuum of affordable housing that's affordable in that neighborhood, and that's how it's rent-structured.

UNIDENTIFIED PARTICIPANT: With the former public-housing residents, you have to bang on their heads and say, "You're not a public-housing resident anymore. Stop coming to me about tenant-council issues. Stop coming to me about all this stuff that has kept you dependent for the last 20 years. You're not dependent anymore. You're living in a neighborhood. You've got another management company. Go live with your neighbors." And, it works.

BARRY ZIGAS: In the policy arena, mixed income has often been a euphemism for lots of other things, like less racial concentration. That's a word we haven't heard yet today. When I hear it discussed in a policy context, it's usually as an antidote for something people don't want to do. They don't want to deeply subsidize housing production. They don't want to get embroiled in issues of racial concentration, and racial mixing. In the policy context, mixed income has all this baggage.

But in this room we're focused on blighted urban neighborhoods. I'm confused, not about the Chattanooga Neighborhood Enterprise neighborhood scale issue, which I completely get – on why and how, in a blighted neighborhood, you would put in a mixed-income project. I'm confused. What is the motivation? Is it for project economics, which is about keeping the thing going? Is it about enhancing the quality of life for the very-low-income people? Is it half social work, half housing economics? Or, is it on the assumption that there's a better consequence for the residents in that project because you've tried to attract higher-income people? And, the last question is: Let's assume you're in a blighted neighborhood where the tide isn't rising or lowering, and there's no tide. Why and how is mixed-income housing an answer and a tool to be used in that community?

AGUSTIN DOMINGUEZ: I, frankly, don't think it is.

UNIDENTIFIED PARTICIPANT: Could I ask you, as you answer that, to define income mixing because I suspect that it's like affordable housing. There are 150

people and 150 definitions.

SANDRA HENRIQUEZ: And, that definition may change based on how Gus does his work and David does his work. So, we initially said it was serving people at under 30 percent of AMI. But, is that really it?

AGUSTIN DOMINGUEZ: Well, that's serving very low-income people. The way I look at mixed income, and the most I can accomplish with the resources I have in the neighborhoods I work with, is from zero to 60 to 70 percent, period. Other than that, in blighted neighborhoods, people will not come unless a lot of other things happening other than housing, which I have no control over. I have no control over the infrastructure that is totally dilapidated: The cost of rebuilding just the water and sewer system is

The smaller scale approach to mixed-income development may work in a neighborhood that is at 50 percent of median. But, in a really devastated neighborhood, doing a few houses at a time isn't going to keep up with the pace of decline.

— Pat Clancy

unbelievable. That's why, in blighted neighborhoods I don't think you can do the type of mixed income that other people may mean, which is really bringing people above 120 percent of median into those neighborhoods.

DAVID SALTZMAN : In Englewood, which hadn't seen any investment in 30 or so years, a program was for single-family home-ownership development of approximately 90 for-sale units and about 40 percent or 50 units have been built and so, to date, we think it's very successful.

One of the changes we had to make for our New Homes for Chicago program was to raise the income limits to allow homebuyers with more than 120 percent of median income because the developer was experiencing so much demand from higher-income people.

UNIDENTIFIED PARTICIPANT: Mixed income, David, that development?

DAVID SALTZMAN: The project is, to some extent. But if you look at it in a neighborhood context, you, you are bringing homebuyers of higher incomes, moderate and higher incomes, into a community that was Chicago's poorest. So, you are accomplishing mixed income within that neighborhood that formerly didn't have it.

I don't mean to disagree with you. Every community is different and the dynamics of change, and the individual advantages or disadvantages of community will dictate whether or not you can overcome blight and have true mixed-income potential. Over the past five to 10 years, we've experienced opportunities. We changed our view on what has potential because we see a lot of the potential out there.

Somebody has listed the various reasons for having mixed income as a goal. One was left out, and that is that one of the main fundamental ideas of the mixed-income community is that you create the dynamics where the market takes care of itself, and you get investment without having to pour in a whole raft of public subsidies. And, we've experienced that as very achievable in a number of communities in Chicago, Woodlawn, Kenwood, to name a few. And, we're depending on that in our public-housing revitalization strategy. We want the market to take over.

SANDRA HENRIQUEZ: Michael, as a lender, define what you all would look at in terms of the risk you're going to take in a mixed-income development in a blighted, urban neighborhood.

MICHAEL CURRAN: Sandra, before I answer that, I want to answer Barry's question. Barry, if you step back from this and say, okay, you've got a blighted neighborhood which, I guess, is akin to a blank canvas. So, what would you do with a blank canvas if you could? Would you fill it

up with a specific income group? Would it be mixed use, would it be single use? Would it be a range of different kinds of things? And, I guess, if we're in the business of cities, and housing and neighborhoods and communities, [the ultimate motivation] would be to build a neighborhood and a community that works. And, to me, that connotes a wide variety of things.

Now, I don't know how easy or feasible it is to engineer higher-income people to come into places that aren't very pretty. What is their real motivation to do that? Is there value that they can capture, either in the form of lower rent, or to catch a rising tide and get some equity built up? Is it proximity to employment? Are there other amenities that are being built at the same time the housing is being built?

well be research one way or the other that suggests that it's smart or foolish. The reality is, that's what we're doing, and it seems to be effective – after you make some ruthless decisions about where you invest and where you can invest.

Then, finally, it's important to recognize that some modest amount of discipline, inherent in private investment [is needed], for the performance of my portfolio. People like lenders, private developers and others, who are very interested in the performance of this real estate. [They are] interested in the management of the real estate because they're at real risk, either from their debt position or from their tax-credit equity position. That is atypical of a public housing agency, and it is not going to happen in a

Recognizing, however, that I'm dealing with primarily replacement housing for families, the fundamental things you look at are the schools, the libraries, other traditional institutions around which neighborhoods are built.

– Christopher Shea

To me, it would seem to be a very laudable thing to achieve. The actual way to do that is a heck of a lot more complicated. As Gus said, it can't be just housing alone. There's got to be a ton of other stuff going on. How do you do that? What do you attack first? Or, do you attack everything at first, and where does all the money come from? Chris, could you speak to that?

CHRISTOPHER SHEA: First of all, you've got to be very ruthless in analyzing those blank canvases as they present themselves across the city or in a city like mine, which has multiple blank canvases. You make your investments in those areas where, again, the fundamentals suggest that you're going to be successful. You then – and this is very important in my local political context – you then act from your values. Our values and our city are exactly as expressed by Renee. We will not make investments in ways that will continue to isolate the poor people in our city. That's what my mayor says. That's what he hired me to do. That's what I do.

I'm not embarrassed to act on my values. There may

100 percent low-income development. Recognizing the distress of my portfolio and the errors that have been made in my industry over time is real important for me to make sure that I get that discipline in every one of my investments going forward.

Now, what do you do [when you are] presented with this blank canvas? Again, you work directly from your real estate, from your location advantages. I'm adjacent to a university. I'm adjacent to downtown. I'm adjacent to a burgeoning arts and entertainment district, even though it's kind of funky arty and not downtown arty. Well, each one of those presents specific opportunities. Recognizing, however, that I'm dealing with primarily replacement housing for families, the fundamental things you look at are the schools, the libraries, other traditional institutions around which neighborhoods are built. And, you make sure that those are as strong as they possibly can be. I don't have money to spend on schools, but I do have money to spend on the computer learning center that's adjacent to the school. I do have money to work with the local settlement houses or local institutions to perhaps build a building or help them



build a building for youth recreation activities after school. Those are the kinds of investments that I can make. And, I'm real careful to make sure that those opportunities are in those neighborhoods, blank canvass notwithstanding. And, so, those are the kinds of things that we invest in, in addition to the housing itself.

MICHAEL BODAKEN: I'm from the National Housing. I'm heartened by the whole notion of this conversation but I want to go back to what Helen asked. I've been in all the panels listening, and mixed income is being refined everywhere. That's good because it could be that mixed income is different in this kind of a neighborhood than it is in a healthy neighborhood. That's fine, but are we talking about market rate or are we talking about 60 percent?

Second, lessons learned. There's a paper by Paul Brophy in your book that actually talks about lessons learned. There are a couple of examples, one by Central Texas Mutual Housing Association, where the expectations and the outcomes were different. So, it's not always successful. And, then, third, I would strongly encourage you to think about policy implications because we're trying to figure out what this all means. Maybe we don't have to do anything at the federal level. Maybe there's something. But, what the states are trying to do now does help, especially if we think it's a good idea for blighted neighborhoods to have "mixed income," whatever that means. What are the tools that can be used?

UNIDENTIFIED PARTICIPANT: In terms of blighted neighborhoods, it's a matter of scale. If you can do it at scale, you can, in fact, transition the neighborhood. Blighting influences create enough scale or enough blank canvass to start looking at all the various fundamentals. If we aren't about community building, the neighborhoods won't turn.

UNIDENTIFIED PARTICIPANT: One of the obstacles to achieving scale, particularly in an area that is somewhat blighted but not a whole lot of blight, is where there's a lot of people who have land who think there's a lot of potential. That interferes with the efforts of developers and housing agencies. The more we spend on land acquisition, the less we have to produce actual units. And if things get too speculative, the land just sits there and doesn't go anywhere. Is there something that we can do that's not going to jeopardize people's precious property rights to

incentivize the transfer of land for these types of purposes? That would be one obstacle that I see that we need help with.

JOHN PRITSCHER: To me, there are blighted neighborhoods that are blank canvases and there are blighted neighborhoods that are occupied buildings. Are we ignoring the blighted buildings, so called, or the buildings that are running down? We cannot afford, in the south and west sides of Chicago, to rebuild them. They house a lot of people. Housing, good housing, has a great social benefit. Good housing might gradually get some economic integration in neighborhoods. But, we cannot afford to rebuild the blighted – not totally blighted or pretty darn blighted – neighborhoods of the city. We need a preservation strategy that is not the normal way of talking about preservation of the deeply subsidized housing. To do public housing, we should certainly try to concentrate our resources on the lowest income people but please do not forget the older, declining, or having declined neighborhoods. It's housing and people that need something to be preserved. It's totally ignored in housing policy, and it's the largest number of units – by far the largest number of people below 50 percent of median income.

UNIDENTIFIED PARTICIPANT: You're absolutely right. We constantly struggle with tax credits in HOME because we find them very clumsy tools for reaching your ma-and -pa operator. We really need to think about that segment of the housing market, which is the largest segment of the housing market. And, I don't think the way HOME and tax credits are currently designed really work for that segment.

SEILA MOSQUERA: I am from Mutual Housing in New Haven, Connecticut. In talking about scale, we have a big development in one of the blighted neighborhoods, predominant African American. When we built this building, the assumption was that it was going to be mixed income – meaning 25 to 80 percent of AMI. But, in reality, most of our families are below 60 percent, and the majority is between 30 percent and 50 percent [and most are] single moms. Right now, we are breaking even, and we have to pay a mortgage. We pay full taxes. We're trying to get the city to assess the taxes based on income because we have 100 percent below 60 percent of AMI.

That's our bigger building. We just developed a smaller development, just nine units, where most of

our residents are below 60 percent, the same way. But that small development is working out well because we don't have any debt service. The state came in with almost 85 percent of the total development costs. For me, HOME funds, it's a blessing because I can serve that neighborhood and those families.

We have another development in a small town, in which our families go up to 80 percent of AMI. In that town, the mixed income works because we have families that are 25 to 80 percent of AMI. We are not making money, but we are self-sustainable. We have small debts. We were able to do that because the town gave us the land. We also raised monies in the low-income housing tax credits and HOME funds. So, we're trying to get as little debt service as we can so we can maintain those units.

ROY LOWENSTEIN: I'm with Ohio Capital Corporation. I do housing tax credit projects all over Ohio. First of all, mixed income means a lot of different things in a lot of places. It's at both ends, below 30 percent AMI, and it's above 60 percent AMI. In really blighted neighborhoods, just getting people above 50 percent of median to move in the neighborhood is mixed income. As bad as some of these areas become, you can subsidize with those sources 100 percent. You're bringing the neighborhood up, potentially, and bringing in the social benefits of households where there's employment and all the other things that we're looking for.

Secondly, to meet the housing needs of the households that are already in these neighborhoods, we're going to have to provide some housing for people below 30 percent of median, and make that housing affordable, unless we're getting everyone out of there who lives there.

Now, here's the radical point I'm going to make and some people are clearly not going to agree with this. As bad as some of these areas have become, and I'm not naive about what the social implications are, shouldn't the people who live there who want to stay be able to stay? Even if they're extremely low-income? There are a lot of people, as bad as these projects had become, who don't want to leave. Why don't some of these people want to go? Well, for a lot of them, it's all they've got. Their roots are in that neighborhood, the social networks, the churches they go to, the merchants that they do business with,

and so forth. And, they put up with all the crime and the bad city services and so forth because that's all they've got.

We've done this stuff before, of uprooting large populations in the inner city. It's called urban renewal. Those neighborhoods went down hill. We have to be aware that there's a downside to uprooting large populations, most of whom are African American or other minorities. They may even have some political [strength] in that neighborhood that gets lost when all those other people get disbursed into other areas. When we talk about starting over with a blank canvass, and all the glories that come with integrating areas economically, it isn't all on the upside and has a social cost to it that really has to be faced.

If city services were improved to the level they were in other neighborhoods, the area would become acceptable enough that it could reintegrate economically, even if we're just talking about people at 50 or 60 percent of median coming back into the neighborhood.

UNIDENTIFIED PARTICIPANT: A smart person once said to me that the bottom line on policy is how you prioritize the money, so this is a budget question for the policy people. What we've heard from the practitioners over and over again is that it takes a lot of money, particularly in the first phases of these developments in blighted areas to start to draw the market back in and reposition that neighborhood. What you see often at the federal level is a cross-cutting tension that has to do with set-asides under the various funding programs that are targeted for home ownership as opposed to rental, and trying to get at a deeper level of income for home-ownership opportunities. But, the other thing that we're hearing from a lot of the practitioners is that these neighborhoods offer a continuum of opportunities for people who are moving from rental to home ownership. I was wondering if it would be a viable conversation in Washington to recognize is dynamic as these set-asides are formulated? In a lot of these neighborhoods, the key dynamic folks are creating is those different segments— rental and homeownership— intermingling and, over time, creating opportunities for lower-income projects.

SANDRA HENRIQUEZ: I want to thank you all for your participation.

# Rural Submarkets

**Moderator:** *Katherine Hadley, Commissioner, Minnesota Housing Finance Agency*

**Panelists:** *Mark McDaniel, President, Michigan Capital Fund for Housing*  
*Ginger Brown McGuire, President, Green Bridge Development Corporation*  
*Lynn Wehrli, Director of Housing Development, New Mexico*  
*Mortgage Finance Authority*

KATHERINE HADLEY: We want to talk about rural submarkets. Are all rural areas created equally when it comes to housing needs, and the ability to do mixed-income housing? We want to talk about whether the benefits of mixed-income housing are the same in rural areas, or do they differ from metropolitan areas?

We also want to talk about income mixes and rent structures, and what might work, and what our particular challenge is in rural areas. We want to talk about actual development in creating mixed-income housing or preserving it, how the existing tools and programs work, how they don't work, and then finally, long-term sustainability and what the challenges are.

Let's start by talking about rural markets themselves. We're talking about non-metropolitan counties. But among the universe of non-metropolitan counties, are there differences that matter in development, preservation, creation and sustaining mixed-income housing?

MARK McDANIEL: There are submarkets to rural areas. As in a lot of states, you have geographic issues. For example, you can divide the Upper Peninsula into two. You have a Western Upper Peninsula, which is a very unique world versus the Eastern part. And you've got Northern Michigan, which is planning to have a lot more resort activities, a little more job creation and low wages; it's a lifestyle/location but still very rural. Then you have Southern Lower Michigan, which is still very agricultural, but a lot of those areas are being influenced by some of the core cities. They're in non-metro counties still, but they're having influences of urban sprawl.

So it's four or five different kinds of submarkets here. And a lot of that has to do with mixed-income types of projects and whether or not they can be supported.

GINGER MCGUIRE: Rural is really more defined by what is *not* there than what is there. They don't have the services, and they don't have the population. They don't have the commercial or the economic support systems.

Texas has very different rural areas, very different needs to service those areas. West Texas is an agricultural and an oil boom-and-bust area. But then the colonias in South Texas are border areas – a high population, but they don't have the services, and they don't have the resources for housing that urban areas of the same population have.

KATHERINE HADLEY: What's happening differently in different parts of the country?

PATRICK SHERIDAN: It varies all over the country. You may be in a resort community and might have some higher incomes that would be involved. Those types of situations might have a bit more pressure to mix with very low income.

What we see in most rural areas is that there isn't a large income stratification. We see mostly very low-income, roughly \$8,000 per unit nationwide as far as average income goes. With the variation of the different rural areas, there are a lot of opportunities to see what we can do to mix it up. But within our RD programs, what we see is mostly one extremely low-income bracket.

MIKE TRAMONTINA: I'm the executive director of the Iowa Finance Authority. One distinction. Rural markets in Iowa are those small towns with chicken or some kind of packing plants – small towns which are declining and an aging population. Our issues are how to deal with the small towns with working people who have very low-wage jobs.

KATHERINE HADLEY: We have areas that are growing – where we've got working folks and where mixed income might be a response to them. We have areas of declining population, extremely poor people. We've got, as someone mentioned, high-cost, resort type submarkets in rural areas.

UNIDENTIFIED PARTICIPANT: We have people

adults and children. And then there is this issue of political acceptance – it's easier to get local communities to buy in. It's easier to get elected officials to buy into housing programs.

LYNN WEHRLI: We're dealing with a lower range of incomes in many small-town areas, which is what we're typically looking at in New Mexico. And that means also that we're dealing with a narrower range of rents in most cases, since they're typically tied to median income.

The level of subsidy that we may gain is probably not enough to compensate for the additional subsidy we have to put into the projects. In New Mexico, our projects are typically higher cost in

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– Patrick Sheridan

from the Bay area and Southern California willing to make the hour-and-a-half commute to find affordable housing for themselves, which drives up the price of housing astronomically. It forces the lower-income population in those communities either to commute to work, double up in housing or to look for work elsewhere. That's been a huge impact in a lot of the low-income communities.

KATHERINE HADLEY: One of the reasons that there's been a lot of attention to mixed-income housing has to do with its perceived benefits. One has to do with financial viability and sustainability. You have people paying higher rents. Does this help the property be sustainable over time? Does it allow for cross-subsidization?

We have this issue of avoiding concentrations of poverty and some of the documented, negative effects of concentrated poverty. There are some suggested role-modeling benefits for residents, both

rural areas, and we have that deadly combination of higher costs and lower rents.

The other area I would like to add. Wherever you build mixed-income housing, by virtue of the fact that you will have a market-rate component, you're going to get better design and better quality housing because the developer has to build to the standards of market-rate tenants. So that's a huge benefit.

MARK McDANIEL: Well, the issues around concentration and role models aren't part of the discussion about this. It's really about financial feasibility of the project and the political aspects of it, which really relate to the financial feasibility.

For us, for any project that you do in a rural area, you have to get some form of tax abatement. So the politics are probably the number one issue and the fact that you're able to say you've got market-rate units helps.

The other part in Michigan is, if it's a tax-credit deal, you get extra points for having at least 20 percent of your units at market rate. That makes it more competitive. It's not any different in what we're seeing in Indiana, but having a component where the development community will play the game and get the points. They're approaching this all for the wrong purposes – the politics of getting tax abatement, the politics of getting your credit allocation, and you're playing the point game. The last thing that they're looking at is the long-term financial feasibility of the project and the sustainability of that project. It has gotten to be a competition for allocation rather than creating really long-term, financially viable developments.

We have areas that are growing—where we've got working folks and where mixed income might be a response to them. We have areas of declining population, extremely poor people. We've got, as someone mentioned, high-cost, resort-type submarkets in rural areas.

—Katherine Hadley

KATHERINE HADLEY: Should we be pursuing more mixed-income housing development?

UNIDENTIFIED PARTICIPANT: Maybe in dealing with some of the smaller areas. Typically, these towns have one low-income housing project, and it was a Farmer's Home Administration 515 deal. The perception of that is when you come into town and ask about affordable housing, they say that it's the project out on Main Street at the edge of town. It's a negative connotation.

You're not going to come in and build new housing. So then, you'd have to take that project and do an acquisition/rehab or preservation, and restructure the financing to bring some market rate into it. It's very difficult to be competitive in the marketplace, saying that we now have market-rate units in this project that's always been known as "the project."

KATHERINE HADLEY: So is the issue of stigma harder to deal with in rural areas?

UNIDENTIFIED PARTICIPANT: Some of the nastiest public hearings I've ever been in are in rural areas, not in urban cities.

GINGER MCGUIRE: I'd like to address the macro political issue. Politics represent the bulk of the voters because politicians want to stay in office, and they're just not in the rural areas, so you get this disproportionate, political and legislative agenda that serves urban areas and leaves the rural areas to figure it out.

My primary experience with rural has been the preservation experience with the 515 program. And USDA-RHS has been wonderful in trying to help us work on some of the solutions to preserving 515

property. But it just really hasn't gotten the attention of the policy-makers and the big money yet, and so the resources are missing.

LYNN WEHRLI: I want to say the opposite of Mark's experience. We've had almost no resistance to doing projects in small towns. I can think of one exception. There's a town of about 20,000 people that has a country club, and the people that live near the country club don't want housing there. But the Nimbyism is far worse in our urban areas. People don't have so many choices in a small town and are very much aware of the need.

UNIDENTIFIED PARTICIPANT: In Tennessee, one of the things we see often is that the greatest opposition is from the public housing authorities because they're real concerned about utilization rates. They're saying, gee, if you bring in this tax credit or a HOME development we won't continue to fill our units here. No matter how much you try to meet with a county executive or the board or whatever, they still say "no, not in our areas."

KATHERINE HADLEY: Does [the mixed-income strategy] help you make the argument about competition?

UNIDENTIFIED PARTICIPANT: We try to show the benefits of course, especially in terms of how we do our QAP on the tax-credit plan. But still, you have a mindset that this has been the only game in town for years and years, and we don't see the benefits.

UNIDENTIFIED PARTICIPANT: The Farmer's Home Administration's projects are in the communities, but there's no great stigma in the real rural areas. They look good. They're probably the best units. But, the 515 [program] in terms of the funding situation [is a thing of the past]. The tax-credit projects that we're building are upgraded, even though they serve all low-income. They're a little lower density, but have better amenities. We live on the reputation of going from community to community since

ple, 30 percent or below, and then you have some percentage that we might call market rate. There's a rule of thumb that you shouldn't have over 20 percent folks at extremely low incomes and be able to sustain a mixed-income development.

So, what do we really mean by mixed income in rural areas? Do you sell tax-credit projects as being mixed income, that's one model. You try to get maybe 20 percent or something extremely low income, but the rest are within tax-credit incomes. That's like a 30-60 model.

What about going higher than tax-credit incomes, 30 percent AMI, up to about 80 percent in median? What about really high, up to 120 percent in media, a 30-120 model? What can possibly work, and what does that mean for rent structures? How do you get rent affordable at 30 percent or median? Do you need to

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— Mark McDaniel

we deal in a seven-county area. We'll do PowerPoints and take people out to take a look at the buildings. The quality of the rental units in rural America with the tax-credit project has taken a big quality up-step.

KATHERINE HADLEY: Do you sell tax-credit projects with the argument that they are mixed-income projects?

UNIDENTIFIED PARTICIPANT: No, that they're tax-credit projects. In California, to get the points we need to serve incomes as low as 4 percent AMI. So it's well defined that we're dealing with low-income families.

KATHERINE HADLEY: Well, let's explore this idea about what's really feasible in terms of a mix of incomes within a single property. The working concept for this day is that mixed income means that you have a percentage of extremely low-income peo-

actually subsidize the rents for market-rate folks in rural areas? What about this notion of ceiling rents that comes to us from the public-housing world?

GINGER MCGUIRE: Who is really in the 515 properties now? It's 50 percent elderly female. Then another 20 to 25 percent are single female head of household. This really isn't a population that is going to move up or go buy a house.

There are 18,000 515 properties throughout the United States. That represents a significant number of the multifamily units in rural areas, with a significant population being elderly because there's no other housing to accommodate them in that location, and they don't want to leave.

The idea of putting in mixed income makes eminent sense. The question of resources is another issue. Do you subsidize to get upper income in? Lynn makes a very good point about building for the design and the

quality to meet upper income. It serves a specific purpose, and in many rural areas it is going to be the only housing available to meet the needs of people who are really searching for multifamily and wanting to live there.

KATHERINE HADLEY: Is it possible to achieve a mix of incomes higher than tax-credit incomes?

LYNN WEHRLI: Yes. I have trouble with framing the issue as the starting point as incomes below 30 percent and then market. I don't think that's what really happens in the rural submarkets.

The way we structured our tax-credit program is that the developers can select any mix of incomes they want, and get high scores if they set aside up to 25 percent for market-rates tenants. We have a project in Taos, New Mexico, which has a population of

median incomes for the counties, really becoming mixed income, although mixed income doesn't mean market rate. You're looking at the people from a tax-credit eligibility standpoint. In most rural areas, because of the low median incomes, it's a very narrow band of people that can even qualify for those units.

You're looking at a two-person household, making \$6 an hour each, which is over income for a tax-credit unit. They're still really low-income, have a huge affordability issue; yet, they can't get into the "affordable housing" project. And so we're seeing those deals being structured as "mixed income" even though the majority of the people there have issues of affordability that all low-income people would have. So the new deals using tax-exempt bond financing and other sources get enough volume in the marketplace, and make the project feasible to attract the largest part of the market, are in

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– Mark McDaniel

about 7,000 people. The option that the developer chose was to put 15 percent of the units at under 40 percent of median, another 64 percent under 50 percent, and 5 percent under 60 percent, and the remaining units were market rate. This was an elderly project. And so that mix was designed both to optimize his scoring for tax-credit purposes and to achieve what he thought was possible within a specific market, segmentation of that market, which was a relatively broad range.

We don't have a lot of data as to the incomes at the top level in that market tier. But you would find that the people renting those units are about 85 percent of median income, which makes sense in terms of the range of needs. So you're getting people potentially below 40 percent up to 85 percent. That's a pretty broad mix, and it's ideal.

MARK McDANIEL: The non-rural development finance types of deals that we're seeing now happening in Michigan and Indiana are, because of the low-

essence becoming mixed income, given current income rules and definitions.

UNIDENTIFIED PARTICIPANT: One of the hardest jobs is being the head of a tax-credit allocation committee and coming up with a point system that truly defines the best projects. A lot of the communities that we deal with are the ones with an average income well below 50 percent of median, probably around 40 percent of median income. When the tax-credit allocation committee drives a program to where you have 25 percent mixed income above 60 percent AMI, it does away with the communities that we're trying most to serve, because there isn't a population mix that can use those units. It poses a very difficult question. There are really two different kinds of rural communities – *real* rural communities and those that are really mixed income already.

MARK McDANIEL: It's really hard to categorize these deals into any one thing. The projects where we have 100 percent Section 8, or maybe 75–80 per-



cent rental assistance, tend to be easy to fix because people are looking to buy those. They can get tax credits, the rents work and they can start that project over with some rehab.

In Michigan, we've got a lot of projects where we have minimal or no steep subsidy in the project. We've got low-income families there that have a \$300 a month apartment. But these are 20 and 25 years old, and they're in dire need of rehab. They absolutely cannot afford market-rate funds to fix them. No owners will buy them. Tax credits will not work without deep subsidies, so they're sitting there. They are by far my biggest concern in our portfolio. One percent loans will fix those, but if we get maybe 2 to 3 to 5 percent per year, that is not going to work.

KATHERINE HADLEY: Minimal, sustainable rent for new construction, which is just to cover operations, is about \$350–\$400. What is \$350–\$400 in some of these rural markets? Is that a high rent, a low rent or market rent?

UNIDENTIFIED PARTICIPANT: I had a project built in the '70s. It had a \$300 rent. We went through a total rehab and did substantial work to it, and we pushed the rent to \$450. It had 100 percent or close to 100 percent Section 8, so it was no burden on the tenants. [Yet,] everybody's kind of alarmed by that rental increase.

GINGER McGUIRE: Thank you for the lead-in to the preservation issue. NAHPA is the National Affordable Housing Preservation Association, and their sole mission right now is the preservation of rural properties, specifically the 515 property. They're doing this because nobody else is doing it – somebody needs to pay attention here.

We are trying to interest the secondary market in a product that can be replicable in rural areas all over the country. We've come up with something that hits a narrow band of properties. We still need to increase that band. We need flexibility in financing, but what we're doing is providing a new market-rate loan, which includes any debt-service reserve that's needed. Then, if there's anything left over, the seller gets the money. Often, that's nothing because the properties have been right up to market, and there's been no payoff of the original USDA-RHS loan. RHS is subordinating the second lien at 1 percent, and in

some instances, restructuring that loan to make it work so that the rents don't have to be raised too far. So that's really the key – where can you raise those rents. How far can you raise those rents in any specific area to make that whole thing work?

We've gone to the private market [but] DUS underwriters are not interested because the loans are small. They don't make much money and don't get a lot of fees. They're trying to come up with additional financial models but no one is paying attention to the preservation need in rural America.

KATHERINE HADLEY: What rents are going to be acceptable in a preservation deal that people will be willing to pay? You said something about that \$350 to \$400 is the market rate in your area.

UNIDENTIFIED PARTICIPANT: I'm curious about the size of the units you're talking about, and how big or how small a size project are they being able to work with tax credits?

LYNN WEHRLI: Our mixed-income projects with tax credits have run from 24 to 84 units.

MARK McDANIEL: We've been all the way from six to 150. The average is probably around 48 units, something less than 50.

PATRICK SHERIDAN: The market issue has been a huge problem. If you're talking about a community that's 4,000 in population, you're not going to be able to put up a 48-unit property, because of the market. Competition in a lot of those markets is single-family homes or maybe even mobile homes. Maybe it's been an investment for the farmer that made some extra money, and he's renting it out for \$200 a month. Well, in some cases it might be substandard, but it's still an option that a lot of the folks in the rural markets have. So when you bump the rents to \$400 a month, although you might have the best product in town, you still have to compete with some of these other properties that are for rent.

The big key is, do you have 100 percent subsidy? I don't want to be one from the government side to promote that we raise rents over market to make a deal work, but HUD's doing the same thing in exception rents under Section 8. Even though you may have a street rent in that community of \$300 a



month. If it takes \$400 a month to fix it, it's important to allow the higher rent.

If you don't have 100 percent subsidy, you've got to do two things. You've got to treat that like a full market-rate property because if you don't, you won't improve it to what the market would expect but yet keep the rents of what the market will bear. You won't fill the other 20 percent of the units that don't have rental assistance, or Section 8, or are the ones you're trying to market. Obviously, you've got to design up to the market to attract the higher-income folks. On the other hand, you can't go too far because you're going to compete with the single-family homes.

GINGER MCGUIRE: In some areas we have 515 properties that are worth preserving as affordable to low income. They're in growth areas, so coming up with that new market rent is really critical because it's an area with a lot of new housing and construction going on. It doesn't have 100 percent rental assistance, but in order to compete in that market you've got to update some of the features of the 515 property.

KATHERINE HADLEY: In rural markets where we are not seeing a lot of population growth and we are seeing some vacancies, we're seeing a lot of RD properties where there's a waiver on income limits. These have been transformed into mixed-income properties. In other words, it's a survivability strategy to allow anyone to live there.

The second thing is choice. Aren't there more choices in housing for somewhat higher income people – that is, buying single-family homes, buying trailers? Once you get a certain income don't you have more choices about what to do than some folks in that situation in metropolitan areas? Is that part of the issue for rental properties?

MARK McDANIEL: We've seen this in the last five-six years – again, in the extreme northern parts of Michigan and Upper Peninsula. They're selling off trailers or mobile homes as they become available. They're selling those old units in what they call secondary markets. There's a group of developers that will buy those for a couple thousand dollars, haul them up into communities and areas where there's no zoning, and plunk those down, one right after the other. That is the choice of housing for the people

living up in those areas. They're buying them or renting them at those levels that you were talking about \$200 a month or whatever. Some of them actually got Section 8 vouchers with them as long as they meet the basic HQS standards, which is pretty minimal. That is a choice of housing in these areas. And the same thing with the modular industry. People are buying those and plunking them down on 10 acres of land in the woods, which is another choice that they have.

The Housing Authority has recognized that this is a conscious choice. It's housing. Rather than ignore it and let those units go down hill, they're taking some of their own funds and making those available as a program. They build roofs, basically a structure around and over old mobile homes and trailers in the woods and unzoned communities, to preserve them so they're viable in the future. It's not the best choice, but it is a choice that people are making. It's not that much money to put up four 6 x 6's with pitched roof to keep the water and the snow out. They're not trying to solve that problem by creating new units and preservation. They're dealing with what the culture is in those areas and trying to make the best of it.

KATHERINE HADLEY: Are we really going to be able to attract higher-income people and keep them in mixed-income developments?

UNIDENTIFIED PARTICIPANT: The tax-credit projects that we build are upscale. It costs almost as much to develop one of those tax-credit rental units as it does to build a single-family house. Every community has a first-time homebuyer program or a housing assistance program by CBDG or HOME Funds. There's a great possibility that they can go out and buy a house for what they'd be paying for rents on market rates.

KATHERINE HADLEY: Let's talk about the financing tools and the actual approaches that people might try to creating mixed-income housing. In certain markets, acquiring existing rental housing is so low cost that you can operate it as mixed-income housing. We've got new construction with various ways of structuring subsidy both on the capital side and the operating side – project basing, Section-8 vouchers, taking an existing very, very-low-income community and try to attract more higher-income folks. Taking a market-

rate property and trying to integrate lower-income folks, the scattered-site option.

MARK McDANIEL: So much depends on geographical location. A lot of the new rural construction is being done with tax-exempt bonds, but there's a problem with it. It's a combination of tax-exempt bonds, HOME funds and tax credits. And if you're lucky, you compete for Federal Home Loan Bank money, and you can get an Affordable Housing Program grant to throw into the mix. There's usually four or five different sources of funds that are coming into these.

The problem that we have in using tax-exempt bonds in rural areas is that the incomes are so low and the rents corresponding are so low. You can't get over 50 percent of the financing of the development costs done with the bonds and you can't use credits. The creative thing that the state has done is an excess construction loan using bond proceeds. Basically, when you close and start construction, over 50 percent of the cost of the project is being financed with tax-exempt bonds in the form of an excess construction loan. When the project is placed in service and stabilizes, they will pay down that excess construction loan with HOME funds, basically getting it back to below 50 percent. But it's enough to meet the test to make it eligible to use the credits.

We saw that as a model program until some of the people on the state housing authority's board said, it was a real waste of bond cap; only putting those bonds out there for maybe two years, then they're lost. So they backed off on that program last year, and there has not been a rural deal in the last year. That's a huge issue anywhere in rural areas where you have low-median incomes for the rents that you can get, so you can't get enough of the bond financing to qualify for credits.

KATHERINE HADLEY: Mark, I assume that in those deals, you're going to have income restrictions on a 100 percent of the units?

MARK McDANIEL: No.

KATHERINE HADLEY: No? They are mixed?

MARK McDANIEL: The band [in the market] is so narrow, because of low incomes, that to qualify for

tax-credit purposes we have to have a certain percentage of those units opened to the market, which, again, is people making seven, eight or nine bucks an hour. They aren't paying really a whole lot more rent, if any, than what the people who are tax-credit qualified are going to pay.

KATHERINE HADLEY: And what percentage do you have at these "market rates?"

MARK McDANIEL: It's been ranging from 30 percent to 40 percent for the project, to be able to have enough volume of units to make it financially feasible from an operational and construction standpoint. We're seeing 30 percent to 40 percent of the units being "market." But market basically equals tax-credit rents.

KATHERINE HADLEY: Why don't the 9 percent credit deals work?

MARK McDANIEL: Competition. The way the allocation plan is written, those types of projects in rural don't compete.

KATHERINE HADLEY: But would they work financially if you could get the credits?

MARK McDANIEL: Yes. If we were able to do the 9 percent credit on it, doubling the amount of equity that we can put in solves part of the problem. Correspondingly, your first mortgage will have a much higher interest rate than using your tax-exempt bonds. So it gets some wash there. What you're able to raise in additional equity, you're going to lose in a higher interest rate.

KATHERINE HADLEY: Ginger, when you're doing preservation deals, what happens to the mix of incomes, and what tools are you finding effective?

GINGER McGUIRE: We're finding that we need new tools. The whole goal of what we're doing is to develop a menu of financing tools that will work. The programs that are existing are in one bucket. We're competing with urban areas, and we're competing with suburban areas for the same pot of money.

So new programs are needed in a set-aside. Unless there is a real political storm I really don't see us getting new programs.

KATHERINE HADLEY: Let's say you could get a set-aside of whatever kind of tool you want, do you still need changes in the tools themselves?

GINGER McGUIRE: [For] 515 preservation, what we really need is lower interest rates, more grant money for rehab. If we're going to track and serve mixed income, then some of these properties do need to be upgraded. We need to add modernization to them. It requires more grant-like money.

KATHERINE HADLEY: If a new subsidy program is limited to tax-credit income, do we need to look at a subsidy tool that actually has higher income limits?

GINGER McGUIRE: If you're going to peg incomes to local income, you need to look at something that has higher income limits.

LYNN WEHRLI: We've got a little bit different experience. We're using our tax-credit program in New Mexico to develop housing in our rural areas. About 70 to 75 percent of our projects each year are rural projects. We've found that those projects need deep subsidies, but with full tax credits, even projects that are 25 percent market need them.

The tax-credit equity typically accounts for about half of the development cost. In addition to that, we're using HOME investment partnership mortgages that are soft second mortgages and relatively small amounts of grants from the Federal Home Loan Bank, and in some cases, a little bit of developer equity. First mortgages we're doing from a risk-sharing program. Our agency has just created a portfolio loan program for small risk-sharing loans, and those typically account for 3 percent of the project costs.

MARK McDANIEL: Three things. First, to be able to use bond financing to get a 9 percent credit would be helpful. It accomplishes the interest rate issue and doubles the amount of equity that you can raise for the end of the deal.

[Second,] these tax-exempt bond deals have required the developer to either do a deferred developer fee upwards of 60 percent to 70 or a general partner capital contribution, money that they'll never see again. One of those two things or sometimes both those

things are in every one of these bond-financed projects. A developer has to put something back in to be able to make them work.

The third thing is that we had a program to blend the new construction money that they get with tax-exempt bond financing from the housing authority. Taking their 1 percent money and blending it with the 5 percent bond financing makes money go a little bit farther and squeaks out one or two more deals than they normally would do. In blending those interest rates, we're able to get something that's much less than 5 percent, as if you were doing a straight-up, tax-exempt bond deal.

So that's been very creative. It's also forced those two agencies to talk to each other and learn about how they do their business. The [Housing] Authority has actually learned a lot in regards to management costs and construction costs. They're willing to look at rural deals in a different light than they have from their own Section 8 urban deals that they did where construction costs were very, very high. They're willing to accept different design, cost and management standards, which makes these projects that much more feasible.

MIKE TRAMONTINA: [Are] people using the USDA 538 Program? Is [there] a role for housing finance agencies to use it? The income limits will go higher there, and it might be possible to produce some things in a rural area with that.

In terms of acceptance in the community, we're trying to do more in Iowa without getting too far into the market risk of creating many additional units. There are not many places I would even think about 24 units.

What about the idea of trying to get some acceptance by focusing on adaptive re-use or historic preservation, not just of existing 515? If somebody in a small town will convert the high school, elementary school, or second-story housing, or if they want to produce something new, they might do it right down on the square. Maybe bend over backwards and maybe run the risk of driving up the vacancies in some of the existing Farmers' Home units if they really did it right downtown in keeping with something right on the square. What we see, at least in the cities anyway, is if you've got a mixed income, the

market rates go first. We might see that in the rural areas as well.

KATHERINE HADLEY: Comments about 538? Lynn?

LYNN WEHRLI: One of the issues that we see with it is that I'm not sure that it competes well with our ratio program, which does the same thing. That's a FHA-insured loan. Between us and FHA, we have 100 percent guarantee, whereas the 538 has a 90 percent guarantee on the first mortgage. That may create some difference in your ability to market that well or to get a below-market rate.

MARK McDANIEL: It's been a mixed bag. We'll go two or three years and never see one, then all of a sudden we'll get three or four. It's a role the Housing Authority could play in handling the first mortgage on those, but they haven't chosen to take that role. In working with local community bank and their interest rates, it's a pretty limited number of markets given the rents required to handle the deal. So, we just don't see too many. The ones that have come in are all in these hot-growth resort areas rather than outer, more rural areas.

PATRICK SHERIDAN: We wouldn't be honest if we didn't say that the 538 has been a tough sell. We didn't have enough money to interest the lenders in it or the secondary market. We had \$16 million the first year, and I went to talk to Chris Tawa when he was at Fannie Mae. He said that when we have a \$100 million block to come in, and he would talk to us. We now have \$100 million nationally, so at least we're a little bit of a player, but it's still an issue for lenders in the secondary markets. We don't quite have the volume yet to make them interested.

This other issue was related to back-room stuff that is important to the secondary market, which was how fast we were to pay on the default. Having never had a default, there's no track record at this point. It is one of the things that we talk to the rating agencies about when we talk about bonds.

We currently have a \$45 million bond deal put together in the Southeast. It's actually about three or four different states, and it's probably got seven to 10 properties included in it. From that perspective, it is a volume deal. The fees are adequate for everybody to be involved, and I understand that Moody is look-

ing at this one very favorably, and they have most of the issues worked out.

The other thing that we've done within the last year is structure a memorandum of understanding with Freddie Mac, who is now actively working with at least one or two different program-plus lenders who have established a program to work on these. What we've seen there is a packager-servicer for other institutions that will put some of these deals together. They don't want to have to learn it themselves but are interested in putting the money into it, then having it sold through Freddie Mac.

In essence, it's almost a market-rate deal in that you can rent to households up to 115 percent of median income. And if you calculate out what affordability at 30 percent of 115 percent of median is, it's actually much higher, even in resort communities, than what the street rents would be for comparable properties.

So affordability restriction is not an issue... Most of the deals we've seen so far have been coupled with tax credits, which put in a substantial amount of equity. Of course, they carry their own restrictions, and you've got to balance that out in the market. But if our guarantee can give a 200-basis-point benefit to the deal, it's substantial in trying to lower the rents, \$50, or another \$100, a unit per month.

It can be used. We have a few of them that are using it, but we also see the commercial market is being a big producer there just because of the amount of volume the states can do on their own.

UNIDENTIFIED PARTICIPANT: 9 percent or 4 percent tax credits?

PATRICK SHERIDAN: All 9 percents. It can't be used with fours. One of the restrictions under the program is that we can't subsidize the rate. Twenty percent of the deals can actually have a small interest credit, but it can't be below the applicable federal rate. That was intentionally put in there so that everything has a 9 percent credit that's done under this program

KATHERINE HADLEY: If we can change federal legislation, would this be something that might work if you could get automatic 4 percent credits with it?

PATRICK SHERIDAN: Possibly. From what I've heard,

more people would be interested in getting 9 percent credits because it would put more equity into it.

MARK McDANIEL: It's a trade-off. You carried a financial burden on the project doing the 4 percent, but you're pretty well guaranteed you're going to get the deal. The developer is going to end up putting more money back into it and make it work.

KATHERINE HADLEY: What you're saying is that the RD office is blending the 515 program with the tax-exempt. So we're getting this blended rate. You can stretch out the 515 money, which, in a lot of states you only get two or three new deals a year.

PATRICK SHERIDAN: Nationally – and even with our 538 program we're seeing our loans that are guaranteed only constituting about 45 percent to 50 percent of the deal, in some cases, much less. Under the 515 program, it's only slightly higher. Nationally, our 515 monies make up maybe 55 percent to 60 percent of the deal. We're seeing a lot of cash credit equity being put back into it, but there are other financing sources – whether it's tax-exempt bonds or HOME funds.

As an agency, we are looking at properties that are becoming troubled or, in some cases, offering to pay us off just because they're tired of the government regulation. Yes, this is an opportunity for us to step away from it and let them go to market, because in those instances market is \$250 a month. It's not a question that the rent's jumping \$300 a month after paying off the government subsidies, but certainly there is some of that going on.

KATHERINE HADLEY: On the 515, tax-exempt combinations, are these typically mixed-income properties? Are there some percentage of the units that do not have income restrictions?

PATRICK SHERIDAN: I don't believe so. In most cases because of the credits, they try to keep the basis high enough, and all the units are covered.

KATHERINE HADLEY: What works with existing financing tools? Are people, for example, seeing any concern about 100 percent tax-credit deals in certain rural areas? Are people doing tax-exempt deals? What about the income restrictions in the HOME program? I know we have a lot of concern in some

rural parts of Minnesota about 100 percent tax-credit deals. The rents are not really subsidized, so you really restrict the market between people who can afford to pay the rent but who are still under the income limits. We're finding that, compared to metropolitan areas, it is virtually impossible to have two-parent families or two-income families in tax-credit projects.

UNIDENTIFIED PARTICIPANT: I would say something on the broader question. We keep hearing from syndicators that they don't like mixed-income properties. I don't fully understand that, but it is one of the issues that have been raised.

MARK McDANIEL: They say no mixed income for a couple reasons. One, there is a market issue. The bigger issue is that, typically, mixed-income deals are financed with tax-exempt bonds. From an investor's standpoint, the kinds of prices that developers have been commanding in the last few years of these 80-plus percent credit deals – to be able to get to that price, the syndicator had to price the losses as part of that almost getting topsy-turvy. The typical tax-credit deal was being driven by losses rather than by tax-credit benefits, so the investors are getting more sophisticated, and their accountants are getting more involved. They're looking at their financial statements and seeing the losses from these investments, which is a negative to them on their income statements. So they've come back and said, we don't want any more of these mixed-income deals, which is another word for saying no more tax-exempt-bond deals.

You're seeing a drop in the price on these in the last year, where they're pretty much comparable to a 9 percent credit deal in the mid '70s. You're not seeing the 85, 90 percent plus deals on tax-exempt bond financing because you can't have the losses driving the price. We've taken a stand where at least 75 percent of the tax benefits coming out of our investments have to be with credits, not losses. As long as we've been able to maintain that, the investment community has still been satisfied to invest in those deals. When they resist mixed income, it results from these issues of the source of financing.

KATHERINE HADLEY: I know this is a point that there's not unanimity around at all. But there's a bill in Congress that the National Council of State

Housing Agencies (NCSHA) [is] pushing that has a provision that would change the approach to rent and income limits in the tax-credit program in non-metropolitan counties. Rather than using 50–60 percent of the area or county median income, you would use the greater of state or area median income. So for most non-metropolitan counties it would raise the income and rent limits, the theory being that it doesn't cost that much more to develop new housing in non-metropolitan areas. You just can't ever make it work given the low income and rent levels in some areas.

LYNN WEHRLI: Many of my FHA counterparts and, in fact, our trade association have gone to bat for this provision. I guess my trouble with it is that if you go to using the state's average rental income to set the rents, then in most cases in rural communities you will be raising the rents. And that means that we've defeated our purpose in trying to help the people at the lowest end of the income continuum because their rates then become a higher percentage of their income. I prefer to keep the rents where they are, and try to find some other kinds of capital subsidies to finance the projects.

MIKE: At least from Iowa, the NCSHA proposal is absolutely imperative. We cannot produce. We cannot rehab. It is not a meaningful financial tool in our rural areas. We like to use the tax credits in the cities but we cannot use them in rural areas. As to driving up rents, the alternative is that the housing stock is old and will continue to deteriorate. The best financing alternative tool to use to do any rehab or to do any replacement are tax credits. We can focus on what it does to the rents, but it's not driving up rents much. The market rents kick in really very quickly. We need financing for replacement, and the alternative is more standard housing.

UNIDENTIFIED PARTICIPANT: Can I ask why the housing tax credit cannot be used in rural areas?

MIKE TRAMONTINA: Because the income limits in the rural counties are so low. As Kit said, the market is so thin that the risk is too high, and you just can't go out there.

LYNN WEHRLI: We're using the tax credit almost exclusively in rural areas, and the rents might be around the \$300 to \$500 range. That's working, but,

again, it may be because we've made the commitment to put in many other subsidies that work better.

MIKE TRAMONTINA: And even piling on HOME as an alternative just thins the market value. Instead of the people in town who might be at 60 who would be looking for rent, you've now dropped down to the 50s. It just narrows and narrows the market and drives up the risk on the occupancy.

KATHERINE HADLEY: Let me ask about this issue of development costs. Based on our experience, there's not much difference in total development costs in rural and metropolitan areas.

MIKE TRAMONTINA: I would agree with you. We don't really see the differences.

LYNN WEHRLI: On the tax-credit projects, the urban projects are cheaper than the rural projects, but it's a slight disparity, and our costs are probably relatively low. I guess about over three years, our urban projects have run at an average of \$65,000, the unit total development cost, and the rural are at about \$72,000. That's about a \$7,000 difference, which is not huge. There are a number of reasons for it. One is that the rural projects are small. It's also very far away from the biggest suppliers and the materials. Typically, trades have to be imported because they don't necessarily live there. Those kinds of cost factors are significant.

We've also done one of these projects on tribal lands and those are very rural, very remote areas. The tribes feel very strongly about doing freestanding units, which also drives up the cost. So we've done a number of those projects, all single-family houses, that inflate our averages on rural costs as well.

MARK McDANIEL: I looked at our database on this. For total development costs for new construction, on average they're in the mid-\$70s. For rehab, it's around \$40,000 a unit. That's total development cost. Now, construction costs alone for new construction, we're around average of about \$55,000 a unit, and for rehab we came up with about \$21,000 a unit.

For urban deals, we don't see any difference between rehab and new construction; they're almost identical. Total development costs on those are anywhere from \$120,000 to about \$140,000 a unit now in

urban. So there's a substantial difference between costs in the urban areas versus the rural areas, \$30,000 to \$35,000 per unit difference or more in urban markets.

**PATRICK SHERIDAN:** When we were the vanilla-box financier of 100 percent of the deal, we were looking at \$45,000 per unit total development cost. That was maybe four or five years ago, and maybe even longer ago than that. On average now for RD properties the new construction is up in the \$70s, about \$72, maybe \$67 nationally. That's mixing everything from Alaska to Iowa.

A lot of that had to do with partnering. We saw the soft cost in total development being a bigger piece of the puzzle than it used to be. We have [also] embraced some of the design standards that the others have brought to the table too. We agree that maybe some of the problem with what we did 20 years ago was cost containment; that put a lot of T-111 on properties that now has to be taken off. We are thinking of the sustainability up front more. Obviously, that drove up the cost somewhat.

**KATHERINE HADLEY:** Which really brings us to our last issue – long-term sustainability and issues around management and operating, and are there particular challenges with mixed-income housing: strong management, more non-housing types of services and supported mixed-income?

**GINGER McGUIRE:** As far as services in the context of preserving for the long term, that's something that is desirable to add to the existing 515 properties, but it takes money. We're also looking at a difficult property-management situation because you don't have a lot of cash flow coming from these properties. They're small. You've got a property-management company overseeing several different sites, which works if they're in a tight geographic area.

The issue is cost. I would like to transfer more properties to nonprofits, have the single nonprofits take on multiple properties. This will give the nonprofit an opportunity to become a better asset manager and learn property management, because that's really where it's going to get the income to sustain the property.

What we're trying to do is identify a possible stream of

income. In Texas, there is property-tax exemption for nonprofits, and we're beginning to discuss with RHS the possibility of allowing the nonprofit to take that property tax exemption and use it for services. It's really case-by-case, project-by-project as far as services.

**KATHERINE HADLEY:** What about long-term sustainability management issues, challenges in rural areas?

**LYNN WEHRLI:** Well, the operating cost factor is affected by the subsidies. There's no question that it requires skilled management to operate a tax-credit project well. We make that more difficult because we'll finance the projects with five or six different programs, and then we'll have five or six different sets of use restrictions. That gets more complex when you have a market-rate component.

In terms of other operating costs, we're not seeing a lot of cost differences [but] we have not had enough history with this program. We are more concerned with the down-side risk. The towns that we're talking about in New Mexico are really pretty stable populations. There are 5,000 people forever. What would really jar a project would be if there were a major economic factor, like a plant closes or a mine shuts down.

**MARK McDANIEL:** Adequate replacement reserves to start with. A lot of the deals on the preservation side are funded at such low levels that it's part of the problem of coming back in.

For long term, it's necessary to have some level of services to improve [resident's] lifestyle and improve their life's skills. We've had some great success with this in working with Community Action Agencies in our states, as nonprofits coming in and taking some of these projects over now.

Using the local housing commissions, the public housing authorities have them coming in as the new owners. We've had success with faith-based initiatives. The local churches have come in, which, typically get members of their congregation into the project [to help provide] the services. They include daycare, transportation programs and supportive services for people with disabilities. If you're able to bring together a consortium of the local social service agency, local mental health agency, the health

department to come together to develop a service program for their customers who reside in these projects, it ensures the long-term sustainability of those projects.

We're also seeing homeownership programs. And I love this idea. We're bringing it in through Community Action Agencies that are doing the homeownership counseling programs, and are able to get people into our rental projects, then have them enroll into the local home-ownership program. From a political standpoint and local support standpoint, that's been a very successful model locally. This is training ground for people to move into homeownership. And we're able to bring in the state housing authority with their single-family programs, with HOME subsidies and down-payment assistance, to bring qualified buyers out of the developments into single-family homes.

**KATHERINE HADLEY:** Let me ask about your model with the tax-exempt financing where you've got 25 percent or more of the units at market. Are you finding in the underwriting of those deals that this project is better set-up for the future in terms of replacement reserve because it's mixed income, or is it in fact a bigger challenge in terms of long-term sustainability? What's the fact that it's mixed income got to do to the issues of long-term viability?

**MARK McDANIEL:** I haven't had a feel that there's any difference yet, because the people who are in the open-market units are not in any different economic situation than the people who are in the income-qualified units for the most part.

Now, in more of an urban area where you have truly market-rate units and have a HOPE VI idea – we're seeing more influence from a lifestyle and mentoring idea. The upkeep of the project, those types of things are keeping operating budgets down, but I don't see that happening in the rural sector.

**KATHERINE HADLEY:** Lynn, you mentioned doing some tax-credit projects that were essentially scattered-site, single-family homes. How do you deal with the management issues?

**LYNN WEHRLI:** These are all tribal projects, and they're the most costly that we do. Typically, they're on one development site, and they're also operated

by the Indian housing authorities. There are some issues that pertain to the long-term compliance of the project with the tax-credit rules and so forth, but it is true that those agencies have run Indian housing projects forever that are more scattered site than our usual tax-credit project.

**UNIDENTIFIED PARTICIPANT:** We're on our fourth scattered-site rural type deal. But in the scattered site, we have the same requirement as we do in the urban areas. We've got to be able to stand on the roof of any one house and be able to see all the rest of the houses. So that's our scattered-site model. But we have higher management costs with those units, although we've had much more success in not having as high a turnover rate and the quality of the tenant in those developments is good.

**PATRICK SHERIDAN:** A lot of it has to do with the cultural issues too, certainly tribal lands. We've done quite a number of scattered-site subdivisions under our fair labor housing programs. And in those cases where we're talking larger properties – California, Florida, Texas – some of those are duplexes and single-family. In most cases you could see all of them if you stood on the roof.

We have had some interest, even under the 538, or a rent-to-own concept, which may or may not work. But there's certainly the issue on the affordability or long haul. Under 538, it isn't so bad, but if they're trying to package it with tax credits, then you've got the affordability there too. But it does possibly hold some promise.

**KATHERINE HADLEY:** Let me ask a little bit more about this whole area on the management side of services, and whether you're seeing – in places with declining population – assisted living or conversions as being a part of the preservation strategy?

**PATRICK SHERIDAN:** Oh, absolutely. One of the drawbacks we have under our programs is we don't have the authority to do anything as far as providing funds for the services themselves. Many of our elderly-design properties were built with community rooms available, so that was a plus. When we get into the rehab deals, we've been encouraging community rooms to be built even in family properties where there wasn't one initially.



But our demographics are that 50 percent of our tenants are single, elderly women, another 25 percent are other female head of households with families. And certainly with the 50 percent elderly women, we don't expect them to be going anywhere necessarily. We've had a lot of aging in place as far as the tenants themselves go. Many of them moved in initially when they were 55 or so and are now 75 or even older. Where we've got some opportunities to bring nonprofits in that have some synergies with other services they can bring to the table, we've been strongly encouraging that.

MICHAEL BODAKEN: Hi. I'm from the National Housing Trust. There's actually a great paper that's put out by the AARP Public Policy Institute on the conversion of subsidized housing to assisted living. It's on their Web site. It's something like "conversion of subsidized housing to assisted living". Community rooms are one of the most important elements to make it possible to do what you're talking about.

MARK McDANIEL: There are opportunities in the main street areas of rural communities, going back downtown and taking some of the vacant storefronts and buildings that you might have, or vacant lots, and doing housing. We're seeing more and more proposals like that coming into us using historic credits, and doing housing in either storefront, or the old high school, and the community hospital type of thing.

It is another source of equity that you can raise in doing a historic tax-credit deal. And that's really what we're talking about, is how you fill all the gaps. Where services are is back downtown, especially for senior-citizen housing. We haven't seen much done with family in that yet, other than the scattered-site downtown locations.

GINGER McGUIRE: In the big political picture, maybe a good group to petition is the seniors, AARP, and others because they're a powerful political force and would be useful in this effort.

KATHERINE HADLEY: Thank you all very much.

# Preserving HUD-Assisted Properties

**Moderator:** *Janet Falk, Executive Director, California Housing Partnership Corporation*

**Panelists:** *Gary Eisenman, Executive Vice President, Related Capital Company*

*Henry Flores, President, Texas State Affordable Housing Corporation*

*Joseph Hagan, President and Chief Executive Officer  
National Equity Fund Inc.*

*Beth Hunter, Director, Low-Income Housing Tax Credit Program*

JANET FALK: What are we talking about when we talk about preservation and mixed income? The focus in this session will primarily be the federally assisted stock, which means we're talking about Section 8 and 236 projects. There may also be unassisted low-income stock. We might want to consider tax-credit projects because that's starting to come up now as the first 15 years of the compliance period is up.

GARY EISENMAN: Well, we have to turn this into an advocacy event for preservation and mixed income. The interesting point is that we're putting two areas together. A mixed-income deal has its own complexities and traps, in terms of making a deal a successful one, and preservation of federally assisted properties is standing alone without trying to bring the concept of mixed income into that transaction. It's complex by itself, and when you put the two together, it becomes unwieldy.

The highlight of the point is, as with any preservation situation, a balancing of your objectives and what is most important in terms of the community. Both preservation and mixed income are worthy goals, but part of [the question] is, what are you really trying to do?

If mixed-income development or rehabilitation strategies are intended to find ways to create cash flows that allow for very low-income tenants to be provided with housing, when you are dealing with a preservation situation, is it not the case that you already have very low-income people being provided

with housing? Therefore, the first objective of any preservation transaction, with or without the mixed income, should be focused on the preservation of the Section 8 project-based units, and then if the mixed-income strategy makes sense, bring that in.

We lay out some of the basic reasons for why mixed income is important. We've learned from the HOPE VI model that there are situations where mixed income makes tremendous sense in terms of the deconcentration issues, social models, cross-subsidization for providing housing for very low-income and extremely low-income persons.

In preservation one size does not fit all. You have to carefully evaluate the physical and economic characteristics of the project, income levels, community demographics, whether the incomes are moving up generally in the neighborhood and what is happening around the project. This assessment becomes particularly relevant when trying to make a decision about whether mixed income makes sense.

In preservation, particularly important are the regulatory restrictions and legal restrictions relative to the tenants, such as tenant notification, when the HAP contract expires, use restrictions under a regulatory agreement such as found in the 236, tenant's rights to remain in the units and enhanced voucher execution.

To go to the point of the deconcentration and the benefits of a mixed-income deal, they are significant. The point that needs to be emphasized is that

preservation probably should be the first objective and mixed income should be the second. My personal belief is that project-based Section 8 is an unbelievably valuable thing, particularly in hot markets where the resource is limited. And as with land, they're not making any more of it. Once you lose it, it's gone. It does serve a very important role, in anchoring projects and, in many instances, community stability. So I would argue that in hot markets and in very low, soft markets, it's a very valuable resource that should be preserved.

One of the things that we should talk about is the purpose of preservation. In hot markets, it may be to prevent opt-out and loss of affordable stock to the marketplace. In soft marketplaces where poverty may be concentrated, and the Section 8 project is somewhat of an anchor in the community in terms of being a well-run project with sufficient resources, to not preserve it would destabilize the community.

The point that needs to be emphasized is that preservation probably should be the first objective and mixed income should be the second.

– Janet Falk

[What are the] indicia of when it's going to be difficult to have a mixed-income deal in a federally assisted project? Probably the most salient one is where incomes and the market rents are in relation to the Section 8. Clearly, where incomes are low, such as in high-poverty areas, it's going to be very difficult to make a mixed-income deal work. Market-rate tenants will tend not to find that an attractive area because they can afford to pay more in another submarket. They would probably not opt to live in a mixed-income building in an area where incomes are generally low. That's not a rule, but certainly it's something that you would want to look at.

A colleague of mine from HUD, Sean Donovan, recently did a study on the New York marketplace, which is not an example for all areas. But there are two important things he found in that study. One was that in New York City, two-thirds of the Section 8 and public housing units were in census tracts where the median income was below 57 percent,

which tells you that those units concentrate in certain areas that tend to be low income.

The other thing that is important for this discussion is that the units that opted out most frequently were Section 8 units that were in areas where median incomes were higher, and the market rents were above the Section 8 subsidy, and the projects were in good condition. So that sets the poles of what types of deals you might see and what kind of execution would tend to make sense on them.

Just to go to the other pole. A deal will make the most sense in an area where you have higher incomes and either the Section 8 is below the market or at the market. You would then have a situation in a tax-credit deal where a market-rate, tax-credit tenant, unsubsidized, i.e., in a mixed-income situation – a 60-percent AMI tenant would have a greater income than a Section 8 tenant. But a Section 8 tenant having the benefit of the subsidy of

the market above that 60 percent level would actually cause what I would call a reverse cross-subsidization because the Section 8 at the market would be providing a higher cash flow than the tax-credit rent. For the tax-credit tenant who is unsubsidized, there would be an incentive to live in a building or a development such as that because they would be getting a great deal by living in a building that's generally at the market, even though it's a subsidized building.

BETH HUNTER: As director of the Tax Credit Program in Michigan, my primary involvement with preservation at this point in time is through the Tax Credit Program. Although we have formed a task force at our state housing agency, we are working with the Detroit and Grand Rapids offices of HUD to see what we can jointly do to preserve the HUD housing in Michigan.

Right now our primary concern is the 202s. There were several 202s that were built in downtown

Detroit, and they are from an era when most of them were efficiency apartments. The seniors in this day and age simply do not want to live in an efficiency apartment any longer, so they are getting the Section 8 vouchers moving to larger apartments. They're also moving into the suburbs where there are services that are close by that they can walk to or where transportation has been provided.

That's one of the areas that, as an agency, we're going to focus on. We also have a very large portfolio of our own financed developments that are Section 8 and 236. We are focusing on those projects, and we are beginning to focus also on the tax-credit projects that are completing their 15-year compliance period.

JOE HAGAN: I have a quick question, because you refer to the Section 202 property. Do you envision that that Section 202 property will remain a 202, or are you going to work it away from a 202? And if it is going to be a 202 project, are there regs to do a Section 202 tax-credit deal?

BETH HUNTER: Good question, Joe. We are going to try to keep it a 202. That's what HUD would like us to do. There is only a small group of the 202s that actually will work with the tax credits and the preservation, so we're going to focus on those. And, no, there are no regs out that I know of.

JANET FALK: Well, my understanding is that you can only do tax credits if you're adding additional units; that you can't use the credits to subsidize the existing units on the 202s.

HENRY FLORES: Well, I'm here as an example of what not to do, so I'm honored to be here. I have numerous roles that are involved with preservation. I have the honor of serving on the National Housing Trust Board, and, of course, Michael Bodaken is in the audience. I'll try not to say anything that is wrong, Michael.

I serve as the president of the Texas State Affordable Housing Corporation, which was created by Texas legislators to deal with preservation. In our first year of operation, we issued \$574 million worth of bonds for the acquisition primarily of existing properties by nonprofits. Unfortunately, even though we've done almost \$600 million, we've done very few preservation deals. I see the preservation deals

every day. I also chair the corporation that is the contract administrator in Texas, and we've lost almost 12,000 units in the very recent past, not having a lot of success and trying to avoid the opt-outs.

As Gary said, when you look at these transactions, you have to look at the public benefit of the possible preservation transaction; so much of it is just a market consideration. If the market is such that you can raise the rents \$300 per unit, it's going to be very difficult, regardless of the economic benefits and incentives that are available through the mark-to-market program. It's very difficult to preserve that housing.

Conversely, the housing that you do have the ability to preserve often is in very impacted areas, so you have to worry about the public considerations of maintaining affordable housing in areas where poverty is prevalent.

JANET FALK: You said specifically the impacted areas. What do you recommend doing about the situation?

HENRY FLORES: Gary's statistics about most housing being in poor areas in New York is probably a symptom of the whole portfolio across the country. It certainly is in Texas. We administer 66,000 units in Texas. Of that, probably 80 percent of them are in areas that are CDBG eligible, which would be impacted census tracts. It's not just New York, but I'm sure everywhere.

In those situations, we're faced with that difficult decision about the quality of people's lives in an impacted area. On the other hand, are those properties the last remaining vestige of control? If those properties turn into truly ghetto properties, what effect does that have on the surrounding community? Again, you have to make difficult decisions about what the benefit is of those transactions.

JOE HAGAN: Well, I'm a syndicator, and last year we closed on 71 deals. Of those, we did about seven deals that we consider "preservation." It would be interesting for all of you to define mixed income. Since most of our deals involve tax credits, it was a 100 percent tax-credit deal. For us, mixed income is having anywhere from 30 to 60 percent of varying median income. Some folks like to go north of that up to 80 percent, and some folks like to go 100 percent.

When we started this discussion probably about five

or six years ago on the tax-credit side, the big thing was to do mixed income. Everybody thought that it was new, but if you look at most normal market-rate apartment complexes, you'll find that most of them are mixed income. There's a whole range of folks that live there with different income strata. But for us, what we are all faced with in this room is trying to make the deals work. If you're going to do mixed income above the normal regulatory requirements, you're going to have issues.

Now, the first issue is the type of property that you purchase. If you're looking at a Section 236 that was built under cost containment, it's going to be very difficult to make that a market-rate unit because most of the time those 236s are very small units and are not very "market-rate" in design. It would be difficult to convert that project to rent it in the normal marketplace. You have to really focus on a Section

The other issue associated with preservation of assisted-living projects is that you're going to be purchasing this project from an owner wanting to sell for a long time. Those deals have been like fly paper to them because, in order for them to get rid of it, they have to deal with exit taxes. What you start doing is figuring out how you can minimize the amount of exit taxes that are associated with the project. The first thing is that you're buying the project for above the true appraised value. Again, you're one step behind. You can't get this deal at a bargain price; you're going to be buying it clearly above the market price, and you have to deal with the issues associated with that, which leads you to somehow getting tax credits to make this deal work.

From the perspective of tax credits, we constantly have issues on these purchase prices because the appraisal is generally less than the purchase price.

If you look at most normal market-rate apartment complexes, you'll find that most of them are mixed income.

– Joseph Hagan

236 from the perspective of trying to get many subsidies in there to make it affordable to the folks who currently live there.

It's an interesting thing to note where these things are located. Ten years ago they were located in bad neighborhoods. In certain markets they're located in the up-and-coming neighborhoods, and there's a lot of pressure to do something with those projects. Many folks – some developers – would like to just tear them down and build new. So part of our role is to maintain these units because they will be truly located in a mixed-income neighborhood. Chicago is a great example. There are a lot of deals that we're working on just to be able to preserve this project so that it can be part of that neighborhood. The new neighborhood has been created in the last five or six years, so you have to be really concerned about the preservation property.

We keep telling the developers to find an appraiser that will give you the right appraisal amount. Generally, it's been very difficult to do that.

UNIDENTIFIED PARTICIPANT: This is on the record.

JOE HAGAN: I know, but they generally can't find them. When you walk in, you say that you bought this property for \$3 million and want to get the acquisition credits on \$3 million. In reality it's only worth \$2 million. So, you can only get the acquisition credits on \$2 million.

There are a couple of other issues as you start to underwrite these deals. Clearly, all these have some form of Section 8 associated with it, or they have the Section 236 rents. You want to try to keep those, but from a perspective of syndicating, you have to be concerned about how the investor is going to look at these deals. They look at a five-year HAP that's going to expire in 2008 and say, "What

happens if that HAP doesn't get renewed?" We have to build up some type of reserve to be able to deal with that issue.

Finally, these are really complex, difficult deals to work. Each one of these deals has a story attached to it. Generally, it does take a while to get it done. What we have to focus on is our ultimate goal. Is our goal to preserve existing housing and get the deal done? If we want to expand it to try to make it a true mixed income, you have to be very concerned and careful of the type of product that you choose and the neighborhood that you choose to make that work. Clearly it can happen maybe in New York City, but it certainly can't happen in Indianapolis, Indiana.

In Michigan...we switched to awarding points based on a statewide median instead of area median, which equalizes it across the state. We're finding out that it works very, very well for the mixed-income projects.

— Beth Hunter

JANET FALK: How many of you think that there's something to gain by putting mixed income with preservation?

CLAUDIA O'GRADY: Claudia O'Grady with Multi-Ethic Development Corporation in Salt Lake City. Mixed income is very valuable if we're talking about the 30 to 60 percent range in my market area. Sixty percent tax-credit rents are market rents and above in some of the submarkets in my area, so going beyond 60 percent really doesn't make any sense.

However, with that said, I can't do a competitive tax-credit application at rents that high. In our tax-credit process you score more points for lower rents. So there's no way that a tax-credit application, even if you dip down to 30 and go all the way up to 60, would score well enough to compete.

UNIDENTIFIED PARTICIPANT: How do you get extra points in Utah? What do you have to do?

CLAUDIA O'GRADY: Actually, you don't get any tax-credit extra points for a preservation deal per se. You have to dip those rents very low. You have to leverage. You have to be a nonprofit developer. It's a

very flat competition pool. You can tier the rent, and you do get extra points for tiering the rents. But in order to score competitively, your aggregate AMI has to be around the 42 percent level.

UNIDENTIFIED PARTICIPANT: Really? So do they take into consideration the fact that Section 8s associated with it, that the tenant only pays 30 percent of their income for rent?

CLAUDIA O'GRADY: No. No one's really done that yet. Our QAP [Qualified Application Plan] actually doesn't address the issue at all. In fact, I'm in the middle of doing an acquisition rehab. I have a tax-credit application due on Tuesday. It's a mod rehab,

and I was hoping that maybe some of you could address the more rehab issues specifically because I'm afraid I'm going to confront some problems on that one.

BETH HUNTER: In Michigan, we have the same problem where the projects that come in are 60 percent of median or 50 percent in some areas. We're not scoring very high. We switched to awarding points based on a statewide median instead of area median, which equalizes it across the state. We're finding out that it works very, very well for the mixed-income projects. They're able to serve people and get points, and of course get awarded the credit, from 25 or 20 percent of area median all the way up to 60.

JANET FALK: I'm going to ask Michael just to say a few words... He's done a study of different states and what they've done in terms of conservation in their QAPs.

MICHAEL BODAKEN: I'm from the National Housing Trust. We conducted a study a couple of years ago to see how many states set aside or prioritized preservation in their QAPs. It was mainly just

to see what kind of set-aside there was. At that time there were two or three states that did that. We just did it last year concluding in December. More than 30 states now have – at least in language in their QAPs – set-asides for preservation. Preservation is largely defined, but it's generally subsidized rural, Section 515, Section 8, expiring tax credits in some states. And it doesn't mean it's a slam dunk. It's far from a slam dunk in those states, but it's just an overarching point.

In many of those states they still have the bias towards extremely low-income scoring higher. There is this kind of dilemma that is confronted by people who want to do “mixed income” up to 60 percent – and that's how I would define it in

In many of those states they still have the bias towards extremely low-income scoring higher. There is this kind of dilemma that is confronted by people who want to do “mixed income” up to 60 percent—and that's how I would define it in HUD projects.

—Michael Bodaken

HUD projects.

In the materials, we have one project that we're working on here in Chicago that we've tried to disguise because we haven't concluded it yet, and one in Golden Gate Apartments in San Francisco. Both are high-preservation deals with mixed income, which address some of these issues. You'll note if you look at those very closely that they're very low cash-flow deals. But these things are beginning to happen in certain places. And there are ways of preserving and dealing with the extremely low and mixing incomes, but it is a challenge.

JANET FALK: One thing that you raised is this: What is mixed income, and are we talking really 60 percent below so that it is still a regulated unit? When we talk about preservation, we're talking about restricted units – that's my definition of preservation. That's a narrow definition, but it is a definition – versus do you go to 80 percent or 100 percent or whatever that happens to be?

CATHERINE GREGORY: I'm from the Delaware State Housing Authority. It's appalling that we're sit-

ting here using the 9 percent credit. It is the only thing that we have to produce new, affordable housing [is what we have] to preserve something that we built 20 years ago, which is the 9 percent. Now you can use the 4 percent, as you know.

What we did in our tax credit – we had a two-tier preservation. We have a five-point bonus, if you preserve affordable that are nonsubsidized because there are apartment complexes that have rents that are affordable to 60s and 40s that aren't subsidized, but need some new light. So we gave them an additional five points. Then you have five points for a subsidized apartment complex that is within three years of opting out. We give them five points for the 9 percent so that two preservation things were affordable.

This goes to preservation and mixed income: If you have a complex, especially in a scattered site that's under an ACC [Annual Contribution Contract] in a deteriorating community, why can't you get HUD to break up the ACC unit by unit? You can take some of the units off of the ACC and turn them into home-ownership. Give some of them a 60 to an 80 and have some that are left with rental assistance very low, like turning the ACC into somewhat of a voucher program. Subsidy is subsidy is subsidy. We keep getting locked into the fact that it's an ACC on this project as opposed to breaking up things so that we can spread it around and do preservation, mixed income and make healthy communities. And I'm talking scattered sites opposed to the complex.

UNIDENTIFIED PARTICIPANT: Would you want to release project-based units from the HAP contract?

CLAUDIA O'GRADY: Yes. It's to release the project base from the HAP, but don't lose the subsidy. Let's just take a project. I'm supposed to call them communities; we're not supposed to call them projects. I'm going to just use a name – Jonesboro. It's a scattered site. It's in an urban setting. It's deplorable. It

has 52 units. It has Section 8. Why can't we release from that ACC the five units and take the subsidy from those units and put it somewhere else? At the same time, those five units can either go to homeownership, or we could turn the subsidy into a Section 8 or a Section 8 to homeownership using the subsidy from the HAP contract. We've got to really think outside of the box or else we're never going to make it.

UNIDENTIFIED PARTICIPANT: You're absolutely correct, but my understanding of this is that it's never been done, which is a bad fact when you're dealing with HUD, first, but there is an interpretation of the Section 8 statute. At HUD it always starts with this "What will the lawyers say about it?" If it's never been done before, the program people are going to go to the lawyers and say, "Can we do this if they think it's a good idea? The lawyers say that there is an interpretation of the Section 8 statute that, based on the words "existing housing," you could move project-based subsidy as a legal matter to other existing units. They could be new units and with the construction finished, or they could be existing if people wanted to interpret existing housing that way.

The issue is going to be one of the interest of the policymakers and the politics of HUD in supporting that concept. It would work very nicely in HOPE VI situations and other situations where you want to introduce mixed income or do some deconcentration, or in areas where you have significant market pressure and potential opt out. Perhaps you could take that subsidy and move it somewhere else where it could be better utilized. It is a political question as to whether or not people would support that because legal authority would permit it.

CLAUDIA O'GRADY: Laying on the HUD regional director's desk right now is our proposal to do that. We are going to try to do it with a complex that is in the city of Wilmington. It's at the cutting edge of communities that are being revitalized, but in the middle of it sets a Section 8 new construction site that needs to be revitalized. It was done when we were doing – I hate to say this, but when we all anticipated HUD raising the rents, so it started out with a 98 percent debt service. We are getting ready, and we are going to push it through.

UNIDENTIFIED PARTICIPANT: How big is it? How many units?

CLAUDIA O'GRADY: I want to say there are 52 units, but there are three complexes. So we're going to start with one complex, and then we're going to try to work all three into it, and at the same time try to talk them into flipping the subsidy to some type of homeownership subsidy.

JANET FALK: Doesn't what she's talking about really have a HOPE VI approach, where you have to move tenants, but you're going to keep the subsidy; you take the subsidy with them?

HOWARD KELLER: Howard Keller from Ohio Capital Corporation. I wanted to talk about a project that actually Peter Richardson was involved from the OHMAR [Office of Multifamily Housing Assistance Restructuring] side – 13 limited partnerships, 1,380 units, 250 buildings, scattered site, throughout a number of neighborhoods in Columbus, Ohio. We have a proposal to demolish about 15 percent, retain the Section 8, move to other units, take about a third of the portfolio, sell off as home ownership or mixed-income housing, and take the Section 8 and move to other suburban areas to do either new construction or acquisition, project-based, with 4 percent credits or 9 percent credits. The field office and Ohio Capital Corporation are a local partner affiliated with Ohio State University. [We've] put together a memo [that's] sitting on the lawyer's desk in Washington. If we can do this, it opens [the field] up because one of the issues that a lot of urban communities face are those types of projects where you need a HOPE VI approach. Joe talked about small 236 units developed with cost containment. With a mod rehab or a sub rehab you need to tear it down and start anew. So the coupling of Section 8 project-based assistance and moving it to other off-site developments or to demolish it and put on new units is an answer to this portfolio.

UNIDENTIFIED PARTICIPANT: Well, Hal, that's a significant change. I mean, do you think there's a hole that will allow HUD to do something like this? Are you trying to break up the ACC on these things, and then try to place them to new units? Are you trying to get a new ACC?



HOWARD KELLER: Well, there are 13 HAP contracts that will be consolidated into one HAP contract, and then broken into separate HAP contracts for a neighborhood-based portfolio, some of which would be off-site, new developments outside of the neighborhood. Conceptually, they've agreed. It is now in getting to the HUD lawyers that we're beginning to run into some problems.

This is critical. We've seen decoupling of public housing authority, development and operating subsidies. We've seen decoupling of 236 subsidies, IRP, and it's now time we need to see some decoupling of Section 8 subsidies existing units for reconfiguration on site or off site.

This is critical. We've seen decoupling of public housing authority, development and operating subsidies. We've seen decoupling of 236 subsidies, IRP, and it's now time we need to see some decoupling of Section 8 subsidies existing units for reconfiguration on site or off site.

– Howard Keller

PETER RICHARDSON: As far as I can see, the issue both in the situation in which Hal is finding himself as well as the Dallas experience, is a resource issue of trying to take apart an ACC and parcel pieces of it around, which can make a lot of sense. But what do you do with the incumbents? What was being confronted in Columbus, aside from all these wires that were crackling around the consolidating and then taking apart HAP contracts, was existing tenants who are surviving in these units with Section 8. You need another resource in order to take care of those tenants if you're going to reassign those project-based subsidies someplace else. And I'm not sure what your petition is at this point to HUD OHMAR or what the strategy is in your 52-unit property that you're trying to disintegrate with those incumbents.

CLAUDIA O'GRADY: If the incumbent is appropriate, I would do homeownership, and see if they would want to take the subsidy and somehow work in a homeownership unit there. So it's going to be intense to do a resident survey. It's going to be very, very difficult. But let's say that Sandy Johnson lives

in one of those units. She's receiving a Section 8 voucher, but she's got a job, and she can become a homeowner. Then I would try to flip it into homeownership assistance for that person so she gets that unit, and at the same time try to do some rehab. It's a very lofty idea.

PETER RICHARDSON: It's a great idea. And one of the things we put down here is tenant support for the project, because tenants can create all sorts of resistances to accomplishing what you want to accomplish. And, as with everything, a tenant will say, "Well, what's in it for me?" Why would a tenant want to go through the stress of the homeownership voucher process when they can get an enhanced voucher? First, they have a project-based subsidy,

and if that doesn't stay in place, they can get an enhanced voucher at the market, and stay in the unit indefinitely at a market rent with the enhanced voucher. So what's the incentive to the tenant to go to homeownership?

UNIDENTIFIED PARTICIPANT: In our situation, the portfolio has about a 50 percent turnover per year. So in terms of relocation, it's a housing of last resort. What would be in it for the tenants that want to stay in place is they could do temporary relocation, come back to that same unit, and it would be a lot nicer. For example, have air conditioning, have showers, things like that.

The other alternative is that if you have a good relation with the housing authority, you could theoretically – and there's a loss of some dollars here – take some of the units, turn them into enhanced vouchers administered by the housing authority.

JANET FALK: There are some other issues in relocation, and if the units stay, they have the right to

remain legally. So how do you deal with that? If you're prepaying your mortgage, or however you're doing it, they're allowed to stay.

HOWARD KELLER: Well, 1,500 units, there needs to be a relocation plan put in place. But since we have so many units in the neighborhood, we believe that some of the units will be maintained, and tenants could stay in the neighborhood in those units. But with 50 percent turnover we've got the ability to make those changes.

JANET FALK: We're creating a new program here.

DENISE MUHA: I'm with National Leased Housing Association. What you're talking about actually has been proposed by a number of senators to the Senate Banking Committee and to the Secretary of HUD. And frankly, it's been rejected. It's been rejected because this administration is interpreting any movement of the HAP contract or transference, especially to any new construction, as against their whole attitude about Section 8. Frankly, Senator Santorum of Pennsylvania and Senator Allard of Colorado are just livid with HUD because they won't approve the deals that they're working on that would preserve a whole lot of housing in Pittsburgh and in Colorado. The obstacle here is the political will of this administration.

Now, you mentioned ACCs, which is the contract that you have with the agency to administer the HAP. The HAP is the owner's contract. You have to have the cooperation of the owners, or if they're selling them, the new purchasers. With enhanced vouchers, the turnovers get the right to remain. And also, if you change the use of the rental housing to homeownership, that also gets around the right to remain because you're changing the use of the property, and the law is very clear about that.

I like the idea. It has a lot of merit, but know that there is this big barrier called politics in the way. You almost have to have a lobby. It's a philosophical change in the attitude of this administration before that will occur. I wish you well, but I'm not feeling too good about it.

UNIDENTIFIED PARTICIPANT: Are you saying there's a legislative change that is necessary in order for this to happen?

DENISE MUHA: There is not a legislative change, but there needs to be a HUD approval. These senators have gone to Mel Martinez with these particular deals. Martinez initially understood the concept and thought that it was a decent thing to do, but the assistant secretary for housing, FHA commissioner, John Weicher, is vehemently opposed and has convinced Mel Martinez that this is not something that this HUD wants to do. That's where you have a problem.

UNIDENTIFIED PARTICIPANT: Do you know why he would be opposed to something like this?

DENISE MUHA: John Weicher? John Weicher hates Section 8 housing, hates project-based Section 8, hates the fact that it's FHA insured and would like everybody to opt out. That's his philosophy, and has been for 30 years, so he's not going to change.

UNIDENTIFIED PARTICIPANT: I'd like to raise a refinement and that goes to the politics of executing these deals. If you have a project that is partially subsidized and the HAP contract says you have 51 bedrooms that are subsidized in a building with 100 units and 101 bedrooms, that contract does not specify which units have the benefit of that subsidy. Theoretically, you could move it around. Since it's in a scattered-site situation, you have different buildings, but it's considered a single development. The HAP contract relates to the whole development. If you have a field office that is comfortable with the concept, they could probably do that without approval from Washington, and not have to get into the politics that Denise was talking about.

UNIDENTIFIED PARTICIPANT: The home-ownership component is there because Martinez says [we're] going to do home ownership. Bush says [we're] going to do home ownership, so let's do home ownership. The political carrot is that we're doing both. We're preserving, and then we're also doing some innovative things in home ownership because that's what they want. Martinez never speaks about rental when he talks; he always speaks about home ownership.

JANET FALK: Maybe we should go on to some other kinds of examples of mixing.

SANDY JOHNSON: I'm Sandy Johnson from Delaware. It seems that there's an active Delaware

contingency here today. Delaware shares a position that only Alaska has in that we are the housing finance agency and the authority. We own properties, public housing, Section 8, et cetera. We are also a high-performing housing authority when we are under an MTW, moving-to-work, demonstration. We are block granted, our housing subsidy.

We have just completed an inventory of all of the units that are attached in any way to state and/or federal subsidy or loan packaging, FHA or whatever. We know what our numbers are, and we are moving towards creating the strategy of no opt-outs. In other words, we want to create a focus group so that we can develop at least a five to 10-year strategy of talking to all property owners about what their issues are and how we can get beyond them before their contracts expire. Now, my question is this, particularly for Henry. You said you had 12,000 opt-outs already?

HENRY FLORES: Right.

SANDY JOHNSON: That's tremendous. That would kill us in Delaware. In fact, we would be in a minus situation. But let's talk about the kind of strategies that might be proposed for convincing owners not to opt out – the whole process and practice of doing that. Help us with that.

HENRY FLORES: But the mark-to-market program obviously was created specifically for that purpose.

SANDY JOHNSON: But those are only properties that are FHA. We have also properties that are not FHA insured. But go on to the FHAs.

HENRY FLORES: The TSHAC [Texas State Affordable Housing Corporation] was created to provide financing products to nonprofits who were going to acquire existing properties to minimize the opt-outs. I still think that's a valid strategy, empowering a nonprofit community to be able to reach out with financing projects that effectively deal with that, because I'm not sure that the mark-to-market program by itself is going to work. We ought to have empowered buyers.

To this day, we have used 501(c)(3) as our primary mechanism. But we're now talking to the state housing agency in Texas, about monies and other sources of financing, including the tax-credit program, to be

able to get either the equity or the additional subsidy to make transactions happen.

You have to empower your nonprofit community by having government work effectively together to create subsidized projects that will allow you to effectively address that market. You have the ability to purchase property, right?

SANDY JOHNSON: Yes.

HENRY FLORES: You're at an advantage, and you also probably have the ability to get money and to be able to negotiate. The biggest problem is to be able to find somebody who is willing to work with that current owner to buy the property, and then have the cash to purchase it in the time frame that they want you to purchase it in. If they say I want to buy your project but need you to sign this 33-year option so I can get the money in order to try to buy the property, they're going to say, forget you. Can you buy it in the next month, or can you buy it six months from now? That makes sense. But if you have to say I need three years to figure out if I can get tax credits, and get the HOME money, and get all of this other stuff, that property's going to be gone. Speed is a key issue here.

These are complex deals. They take a lot of time to put together. You need somebody that has patient money for you to buy it, you hold it, and you do everything you need to do, and then to get the final financing together.

UNIDENTIFIED PARTICIPANT: Joe mentioned a point and that's the appraisal process. Often the market value is less than the sales price because the sales price is based on exit taxes and a whole bunch of other considerations beyond the value of the cash flow. You can't use standard market real estate principles to calculate the value. Again, trying to find soft money and trying to find tax-credit equity, trying to find other sources of finance to make the numbers work, is critical to the endeavor.

JANET FALK: But we can't shy away from the tough problems because we'd never do affordable housing in the first place.

BETH HUNTER: That's exactly right. We simply all have to work together. Our financing people and our tax-credit people, work with the owner very

closely in processing the whole deal and putting it all together. And, again, there might be problems with the appraisal.

UNIDENTIFIED PARTICIPANT: And the issue of political will, I don't think we want to minimize at the national and state levels. Part of our agenda is to educate legislators about the magnitude of the problem. We have broken it down by district. The pictures and the profiles of the properties in their district are being lost to either force the state agency to be more cooperative or to ensure that people understand the severity of the problem.

JANET FALK: We've done a lot of preservation projects using tax-exempt bonds, tax credits, combinations of all forms of subsidy, guarantees of Section 8. You have to put all of this together. And there are a number of sources now for acquisition financing. Actually, Neighborhood Reinvestment has a fund and will loan to their member organizations to do that kind of acquisition. There are other intermediary funds out there. They're starting to develop, and they develop when you push them to create a new product.

UNIDENTIFIED PARTICIPANT: We just closed on an up-to-market in Boston located in the Boston Commons. The purchase price kept changing based upon different factors because they had this formula – how much tax credits can you get, and how much equity can you pay. Therefore, the price kept increasing. There was some kind of magical formula. It was a crazy process. When you try to get an appraisal on it, you're saying, well, I'm going to give you this much for tax credits assuming that the purchase price is the right price. But if the appraised value is less, then you're reducing that

UNIDENTIFIED PARTICIPANT: I'm curious to know as an investor, what is the investment appetite out there these days for preservation deals? How do you view the additional subsidy, one-year contract or five-year contract? Do you look at that in your underwriting? How do you move on those?

JOSEPH HAGAN: Well, first of all, I want to tell you, there is a big appetite from the investor's perspective for preservation of current deals, but they're very hard to underwrite. You start out with the simple notion that you have a five-year HAP contract, and what happens if the HAP contract goes away? So what is the market-

rate rent for this? And like I said, if it's a 236, the market-rate rents might be a lot different than a standard Section 8 program. Or how much reserve do you want to build up in the event that Section 8 goes away?

Some investors want a huge reserve that makes the deal almost impossible to do, and other investors are willing to say, we can get comfortable that Section 8's going to get renewed. Congress is going to continually appropriate the funds to do it. What we constantly try to do is try to get them to ease off on the amount of reserves that they require for that.

The other issue that you always have is what is "mod rehab?" Anytime you say that you're going to do mod rehab, it sends up the antennas, and they want you to define what is mod rehab. So we end up doing all these types of studies to say how do your systems look. Can we justify not changing that HVAC system now? When, in fact, will it have to be changed? Will we have enough replacement reserves to do that? So that's another key issue that we have with our investors.

One other issue that people don't understand is anytime you do a current Section 8 project you have this back issue that is called a HUD 2530. Who in fact has to issue the HUD 2530. Currently, we all say that the syndicator has to issue the HUD 2530, but what happens if the investor has to issue the HUD 2530? I don't know if you guys know what that is, but you submit a list of all the projects you're associated with.

I have the unfortunate thing where my board members consist of one person from Fannie Mae, one person from Freddie Mac. Do you know how many deals they have touched? Literally, it takes us 90 days to get that report together, especially for a HUD area office that really wants you to do the full-blown HUD 2530.

There are some investors that will say that you have to guarantee that I don't have to do a HUD 2530. Well, we can't guarantee that. But we have some investors that just shy away because of that.

GARY EISENMAN: I can elaborate on the underwriting issue, which is very important in terms of preservation, and it would play out even of greater significance in a mixed-income underwriting.

We need to distinguish between an old HAP contract that still has time to run versus a new HAP contract that was initially renewed from its old contract. They're very different creatures.

The old HAP contract is a fully-funded contract against which the underwriting will be different even if it's above the market, versus a renewed contract. That contract, whether it's a year, five years, 10 years, 15 years, 20 years, is subject to the annual appropriations process. In the marketplace that's called appropriations risk. Whether the Congress has fully funded these contracts for 25 years, the account has never gone down; it's only gone up. It's not just an out in Section 8 contracts; this is a function of the budget process. The result is that because of the balanced budgets acts of the early '80s in which they're required to account for contracts that have out-year obligations. As a result of that, they only appropriate money on a year-to-year basis in all contracts.

The underwriting in the marketplace reacts to the risk. Regardless of whether you believe it's real or not, the marketplace takes into account as a real risk. In a Section 8 underwriting, since Section 8 rents are required to be, upon renewal, at comparable market rents, it's fairly easy to say, okay, fine, well, I'll underwrite this at a market rent.

If the Section 8 went away, if I underwrote it correctly against the existing market, I would be okay because the cash flows of that building will work fine because I will just have to move my Section 8 tenants out and bring market-rate tenants in. Joe refers to the transition reserve. That transition reserve is there in case that happens, so I can transition my building over to a market-rate building. But my underwriting should work, and the project should go on without default.

One problem that comes up in mixed income and particularly the tax-credits' situation is when the market is above the tax-credit rent. And so you have a situation where you have a tax-credit deal that's being put in place at a market rent. Let's say the tax-credit rent is \$100, and the market is \$150. The underwriting and the problem that comes up is that then the underwriting is done at the lower of both the debt and the equity because of this risk.

So notwithstanding the fact that the tax law allows for Section 8 and tax-credit deals to be at the higher rent – in other words, that a tax-credit owner can collect that higher rent and benefit from the cash flow when doing the deal, that can't be leveraged. And that extra \$50 is not taken into account in the marketplace because of that particular risk.

UNIDENTIFIED PARTICIPANT: So the issues that you're putting out are not only the Section 8 risk but also the aversion to market-rate risk from the equity investors. Is that the same with you, Joe?

JOSEPH HAGAN: Yeah.

UNIDENTIFIED PARTICIPANT: So we've been bellyaching around HAP contracts, but a good part of the obstacle to achieving mixed-income goals exist as well in this illusive equity marketplace for no real good [reason].

There's no illustration of any unfunding of any Section 8 unit in the history of the world. There is no real reason why an equity investor should ignore a market study. You spend a lot of time doing market studies to justify the tax-credit rent and blow off the \$50. So that just unfunds the deals. I'm trying to be provocative; how am I doing?

The other question is how do you treat them, those elements of uncertainty? Do you give less dollars per Section 8 per tax credit, or do you not do the deal, or how does it come out in reality, the additional protection that, in fact, you're getting from the ongoing Section 8 subsidies as well as the market-rate rents?

JOSEPH HAGAN: The big issue always becomes how big is the reserve going to be, and it's the transition reserve. So you're bidding at a normal market-rate price, but it's really how much of part of that money will be set aside and the what if's. And what we end up [with] is a lot of what if's, because that's what our investor's going to say.

GARY EISENMAN: It's also an issue of the debt. The debt is what drives the equity concern. First, in the marketplace the debt will underwrite in the same way. In other words, they will not take that market-rate risk either. They will underwrite at the tax-credit rent. What's happening in the marketplace

now is that lenders will take a look at lending at that higher market-rate number. The reason that the debt can do that is because if they underwrite it correctly at the market, they're protected by their capacity to foreclose and reposition the asset. But in a tax-credit deal, the equity would be wiped out in that scenario. The risk of that underwriting is on the equity investor because they're not protected if it fails.

JOSEPH HAGAN: We wouldn't do a deal that was priced that way. If the first mortgage debt was priced at the higher amount, we probably wouldn't do the deal.

JEFF REVEDI: I'm Jeff Revedi, of Standard & Poor. I can talk about the debt side and the market perspective. One of the things we're struggling with is existing criteria for all Section 8 contracts. We're really struggling with the idea of what to do for new Section 8 contracts because when we look at the old Section 8 deals we did, which were co-terminus, [there were] no appropriation risks. Now we're facing contract-renewal risks, appropriations risk, and the likelihood [of default]. What's the significance of one property? It's really hard to say.

Our concern is the bondholder, who at least in an investment-grade-rated scenario, can't be taking that risk. Some enhancer has to come in and take that risk. We haven't to date been able to get comfortable because we haven't been able to get any comfort from HUD in terms of how this is going to work. Can the capital markets be comfortable that there's going to be some Section 8 there?

That's the process now. We're just beginning some more negotiations with HUD because we're having problems on our existing Section 8 ratings because these properties are not getting rent increases. They're being starved to death. We're now going to an investment-grade-ratings scenario on federally-subsidized debt, so we're just not getting the level of comfort we need and we feel bondholders need in order to have investment-grade rated debt. From the marketplace scenario that's also a big problem.

UNIDENTIFIED PARTICIPANT: There are a couple of deals we've been involved in where we're assuming the existing FHA debt. When you're in one of those scenarios, you grab at anything. One of the things that we've always said is that if it has Section 8 and it has FHA, we have a less likely chance of them

letting the Section 8 burn off. It it does burn off, we have a better way to do a workout with an FHA-insured loan as opposed to another loan. Whether or not that makes sense, that's part of what you deal with when you're in underwriting to try to justify the purchase of that property. We're all deal junkies; you want to do the deal.

HAL KELLER: Jeffrey may have raised some very good points on the debt side, but equity markets are not monolithic. I have an equity fund. If a deal gets too squirrely, I do a private placement. Go into the banks a little bit more risk tolerant. Joe talked about trying to bring some investors from one end of the spectrum to the other in terms of risk aversion. There are special pitches. A local bank is often a good place to put a squirrely deal that has a lot of these issues. The equity markets are not monolithic by any means.

SANDY JOHNSON: There are steps that S&P has taken. You've increased the per-unit reserve, which really is like a catch-22 particularly for these old properties, in order to not down-rate them. Maybe that's the hindsight of it all. But therein lies a very difficult situation because everybody in the world knows that the earlier developments were thinly capitalized. In most cases it even required a debt reserve because the ink wasn't dry on the whole deal and now they're coming up for expiration in 2002. This is the year of reckoning right now. You're seeing it everywhere for about over a half-million units of property in the country.

We've got to do something with HUD about these contracts because of the length of the contract and the whole underwriting deal. What I'm hearing from S&P is that there is an assumption about the contract that people are going to be in and that they're going to be paying rent. You just make that assumption. But on the other side of the underwriting, that assumption is not being made. You're looking for a longer-term assessment or a longer-term guarantee of what's going to happen with the properties, even though it may be FHA underwritten, because it may go up on the appraisal side. So it's an incredible catch-22. How we get out of it?

GARY EISENMAN: There are some things that could be done to address this issue, but most of them would require congressional action. The answer does not lie at HUD. This is an issue that is a result

of the budget process in Washington as a general matter. And as a result of that, all federal agencies have this problem.

The issue for us as an industry is that this is exacerbated because we're talking about real estate. Real estate is not financed the same way as a fleet of cars because it's a long-term play. In order to get a financial market to react well to a real estate financing and provide capital, you have to provide security of some measure against the cash flow that you're underwriting on day one. Otherwise, there's no way that you're going to get a high rating from a Standard & Poor on a cash flow that is subject to a significant condition.

This is a function of the budget law, so HUD can't do anything about it because they don't control that process. This is a process that would require a change in law at some level, either in the way Section 8 is budgeted for in the federal budget process. Part of the problem is that this is part of a discretionary account in that every year the appropriations committees in the Congress get an opportunity to reduce this account at their discretion. This is where the appropriations risk comes from because the Congress determined back in the mid-'90s that they wanted to have control over that when these renewals started to come up. And if you do the math, they were 20-year contracts that started in 1975-76, so by 1996-97 this is when it started. It's now continuing. And they determined in the mid-'90s that they wanted to have discretion over the account, and because of the budget laws they almost had to. Every year it comes up.

One of the things that you could do is look at moving this from a discretionary account to a mandatory account. This would not impact the annual appropriations issue because you would have to appropriate each year so that you would not raise the budget expenditure in the current fiscal year. You would be spending the same amount of dollars, except that it would be a mandatory expenditure in the budget to fund the project-based, Section 8 baseline.

The gentleman from Standard & Poor could address that. If it was a mandatory expenditure and there was no discretion on the baseline, I would be able to tolerate better as an equity or debt investor because I know it's gonna get funded. You'd still have the

issues of how much it is going to go up and things of that nature, but at least you would know it was not going to be eliminated and that you could underwrite it at that constant level.

FHA underwrites loans exactly the same way. They will not underwrite on the higher of the market or the set-aside. If the market is above the tax-credit rent, they will write at the tax-credit rent. What's interesting is that in the 202 legislation that was passed in January 2001, there is actually a provision that gives a discretionary authority to the secretary to accept that risk. In other words, if the 202 is refinanced with FHA insurance, the secretary may assume that the Section 8 will continue. Although FHA officials say that's not what that's about, they can't really tell you what it is about. There's a point here of great resistance to taking that risk across the board, including FHA, and it's going to take the Congress to fix the problem.

JANET FALK: What we're talking about here is continuing Section 8 and how to finance that. So we're not really talking about mixed income, because if you're continuing the Section 8 contract, you've got the same tenants in there. Do we want to talk a little bit about situations where you really want a mixed income—where you want to eliminate restrictions or a 236 where there aren't restrictions on all the units if you prepay?

UNIDENTIFIED PARTICIPANT: This whole Section 8 conversation is really not exclusive of the mixed income because we're talking about how to finance. Well, we're talking about not only preserving what's there now, but to create a strategy on how to finance so that we can then move to the level of being more creative on the mixed income. I see it all rolled into one.

JANET FALK: I guess where I'm confused is, if you keep the Section 8 on all the units, you could have the entire project all very low-income tenants.

UNIDENTIFIED PARTICIPANT: Unless you decouple.

DAN BURKE: I just want to comment on the notion of mixing the older assisted stock as a policy matter. It is not advisable to mix above the income limits that are set by the 80 and 95 percent for 236 and 221(d)(3) respectively. [If] ELI is our core problem,

the issue is to integrate services into the older assisted [properties] to make those stronger rather than to bring higher incomes into them. In HOPE VI and other places where you're working with new land and new situations, you can build the world anew. Then doing a creative mix is a good idea. Some of the older assisted deals had no project-based Section 8, and the 236s can go zero to 80. You could tier within that mix to try to get a relatively higher income clientele into the building.

We've had a success uptown in Chicago with a property that has 153 project-based Section 8 and 75 units out of BMIR. They're under the old 221(d)(3) program, but had a ceiling rent concept in the early '90s. We have rents \$200 or \$300 below market for those households and that works well. It's a great community but I just don't think a policy of bringing mixed income to the older assisted is an advisable idea.

ALLEN BLITZ: I'm from the community service side in New York and we're taking over a disposition 236 property, which is going to go from project-based to a voucher. It's 500 units and it's 60 percent to 70 percent occupied. We are going to bring in unsubsidized tenants, but they're going to be no more than 80 percent of median-area income.

The question is how do we bring into a particularly distressed area of Brooklyn working-poor families. The rents will be set up actually at 70 percent of median income. The rents are very high in the area anyway, and we hope we can attract working families. We intend to close on the project within the next six months.

We intend to bring in some new vitality into the area, and it really is an experiment. We take the mixed-income idea very seriously.

JOSEPH HAGAN: One of the things I could tell you is that once you get outside the preservation area, you're looking at standard tax-credit deals. We've done a lot of what we call mixed income, where you actually have deals that are for folks that are 60 percent or below and the rest are market-rate units. The success so far on those has been very good. Those projects have been going very well. We're really surprised at some of the rents that we're getting on the market-rate side.

A project that we did in Dallas was about 180 units.

About 50 of those units were market-rate units. When we underwrote that deal initially, we thought that the tax-credit rents would be about \$0.72 a square foot, and that the market-rate units would be somewhere about \$0.81 per square foot. The developer thought for sure they could get \$0.85. The project has done very well, and that the tax-credit rents are obviously where they need to be, but the market-rate rents are north of \$1.10 a square foot. I never would have guessed that, and the development is doing very well.

JANET FALK: On a true mixed-income, tax-credit deal, don't you run into issues of too many losses and back-end tax attacks.

JOSEPH HAGAN: On a mixed income? No, it's the opposite. This project's cash flow is extremely good. It's when you have 100 percent and you have layer financing where you have issues concerning your exit taxes.

UNIDENTIFIED PARTICIPANT: Somebody did a case study on the old 80/20 deals. Did they really achieve what they were supposed to achieve? Did they accomplish the mixed income that they were supposed to? Did they go default?

UNIDENTIFIED PARTICIPANT: In Texas our experience has been good. The properties that I mentioned earlier are all done in a mixed-income setting. Either it's 60 percent of units at 40 percent AMI or 20 percent of units at 50 AMI, but they're all mixed. And it's been a very successful endeavor for us.

UNIDENTIFIED PARTICIPANT: Under the old 80/20, it was the old bond regulations. Many of them only had 10 years of restrictions, which are gone. It's very hard to preserve those because you've basically got a market-rate project that you have to pay for. So the acquisition cost if you're in any high-cost market is going to be extremely high and you can't get enough credits on the 20 percent units.

Another issue with that is the nonprofit developers can't do 80/20 projects if they're 501(c)(3), whose purpose is to do low-income housing, unless it's under 80 percent of median income

UNIDENTIFIED PARTICIPANT: In my past life I worked at a housing finance agency and we did



80/20 projects. Most of the underwriting assumed that the market-rate units would have to subsidize the units. It worked. But you're right, it burns off pretty quickly, and they become 100 percent market rate. A lot of those 4 percent tax-credit deals were a lot of mixed income. In our portfolio, those are doing okay.

UNIDENTIFIED PARTICIPANT: What are your income limits? Are you doing any above the 60 percent? Are you just doing 60 then on down?

UNIDENTIFIED PARTICIPANT: We have a certain percentage of them at 60 percent and the other percentage at market rate. There were a number of those done. They're not being done now because the return on investment is going up, and the amount that we can pay for those deals have now pretty much come in line with what you pay for 9 percent deals. There was a time that when you did a 4 percent deal you're automatically paying higher on the tax credits, but that has changed. Also, it's much more difficult to find equity for 4 percent deals but those seems to have worked out so far.

JANET FALK: Back on financing the Section 8 increment, if you think that the Section 8 isn't going to go away, there are things you can do. We had one city that was willing to guarantee Section 8 for 15 years, which would get both lenders and investors to take back. We could leverage that. We've also used Section 108 guarantees off the CDBG program where a city pledges their future Section 8 payments. You can sell a loan off of that, and it's guaranteed. Again, you get a 15-year loan that both lenders and investors will accept.

So there are some ideas out there, but it's not a federal government solution, whether we all think it should be or not. It means that the local or state public agencies have to come in and do something.

UNIDENTIFIED PARTICIPANT: I understand the San Francisco program. They guarantee the Section 8 by putting a mortgage on the property, and as Section 8 goes away, the funds will come in from the City of San Francisco.

JANET FALK: It's a two-part mortgage. The first lender puts on one piece supported by the tax-credit rents and then another piece supported by the Section 8.

UNIDENTIFIED PARTICIPANT: The city of San Francisco is the one who's really acting as the guarantor for the 15-year compliance period.

JANET FALK: They kept an option open either that they would continue making the payments on that second piece of debt, or they would just pay it off. They wanted the option to go either way because if there's a lot of years left, they might want to make the payments. If there's only a few years left, they might want to pay off the cash, the whole amount.

They're the only ones that I know of that have been willing to do it. It does work. So some way or another, we have to guarantee that Section 8 increment. I've been talking to some foundations about using PRI money to do that. That might be another option. We have to start thinking of some solutions here.

UNIDENTIFIED PARTICIPANT: Why couldn't you set up an annuity with a CRA bank?

JOSEPH HAGAN: As an ex-banker, I would not want to do that.

UNIDENTIFIED PARTICIPANT: Well, I know you wouldn't, but we're very willful in Delaware.

JOSEPH HAGAN: You are very willful, and there's a lot of people that might be interested in doing that.

UNIDENTIFIED PARTICIPANT: Yeah. If you could get a bank to set aside enough money to spin off an annuity, you're just insuring what you consider the residence portion of the rental.

JOSEPH HAGAN: The government's portion.

UNIDENTIFIED PARTICIPANT: You're right. The government's portion of the subsidy is what I refer to that as the tenant subsidy side. It's not the entire rent. If you could get a bank to put the money into some type of an annuity that would just spin off to cover that portion every year, but you don't really have to tap it if it goes south.

JANET FALK: Well, we want to thank everybody here, both the audience and the panel, for their excellent discussion.

# Is Affordable Housing a Part of the American Dream?

*Luncheon and Keynote:*

*Egbert L.J. Perry, The Integral Group LLC*

EGBERT PERRY: Good afternoon. I'm going to talk about lessons – why mixed-income housing, and what lessons we have learned from working on mixed-income housing.

The question is, do we as a society have the moral standing to do right by affordable housing? I do make a moral issue.

The challenge is to find a way to make affordable housing a normal part of the housing production and delivery system.

It's a moral issue because it really does get to the heart of all of our biases around class and race. I said it in that order intentionally, because I've come to learn that class is actually higher on the issue list than race. You find that some of the very people who are economically right here can't wait to be here so they can no longer have to be around those people that are here. And I'm talking economics. So, if you really want to mess the pot up, you can introduce race into the equation, and you really have a screwed up mess, and that's what we have. So, I did make it a moral issue. This only has context if there is a much broader economic development strategy. If people are not advancing economically, in such a way that they can help lift their families further and further up the economic chain, then, we're having an affordable housing discussion that really is grounded in the wrong kind of context.

In a lot of these communities where you have these God-awful concentrations of thousand of units of public housing in one footprint, there's a discussion about their need to be preserved. A lot of people like to stay in those units, and there's a reason they like

to stay there. Well, the fact that they have no expansive vision of what's possible and want to stay in conditions that none of us in this room find acceptable does not somehow or another make that a desirable set of circumstances for people to live in. So, preservation is good. It has its place. But, where you have over-concentration of a negative, there is an argument to be made for getting rid of some of the negative. We're not in a conversation about affordable housing in the context of urban renewal and wiping out whole neighborhoods, but we do need to understand why affordable housing is such a critical part of the housing strategy.

We've spent a great deal of time over the last 30 or 40 years investing in the dysfunction that we have in society right now. We have created a stratification in housing. If you are very, very low income, we've got to place you. If you're low income, we've got another place for you. If you're a first-time homebuyer, there's a community for you over there. If you're at the next rung on the ladder, there's another community over there.

So, the simple statement is, if you tell us how much you make, we've got the perfect place for you to go and be with other people that look just like you, have exactly the same set of values. We assume that people are static, as opposed to going through a life continuum. And, that's the fundamental flaw in the way in which we've structured much of our housing design over the last 30 to 40 years.

Once you've set class and race aside, it's people that happen to fit in a certain economic range and, therefore, need housing to address their particular set of circumstances at that time and that five years from now, it may not be the same family.

The average public housing household receives a subsidy of somewhere between, depending on the region of the country and cost issues, somewhere between \$1,000 a year to \$3,000 a year.

A homeowner in a \$200,000 home gets a subsidy of about \$6,000 a year. You know, seven and a half percent, 30-year mortgage, whatever – three times as much subsidy to the homeowner. Now, I missed the conference where we got together and all decided that that was what we should do. I wasn't invited. And, I certainly wasn't invited to the one where we said, not only could that apply if the home was a \$1 million home, but it could even apply to a second home.

In the meantime, the teacher, firefighter, police, can't afford to live in the housing that's produced in most metropolitan areas across the country. Now, that's a moral issue. And, if you don't get it as that, you're fooling yourself. It's a selfish issue. Now, I happened to take that mortgage interest deduction on April 15. But, I take that mortgage interest deduction, so I won't raise my hand with the hypocrite list because I don't turn my nose down on the people in public housing that receive public assistance.

Let me ask a question. How many of you own a home and take a mortgage interest deduction? How many of you are just renters in housing that is not in any way, shape or form, subsidized? You just pay somebody rent? How many of you own your own home, but do not take the mortgage interest deduction at tax time? We ought to clap for these people because, those are the ones that are not parasites. The rest of us are. I won't ask for those of us that remain sitting that do snub our nose at the low-income people living in public housing to identify themselves. But, those are the hypocrites.

I know there's somebody out there trying to convince themselves that the owners of rental housing get tax benefits, and they pass it on to the renter. Take it from me, they're not getting lower rent. I can assure you of that.

If I ask every one of you at the individual level what you stood for, I'm sure every last one of you would support affordable housing. But, the problem is policy does not reflect what all of us sitting in this room thinks. In fact, there's an expression, mind over matter, where the policy-makers don't mind because the

people that they affect adversely don't matter. That's what we have so we're debating the issue of affordable housing in a vacuum.

You know the concept of highest and best use? It came into being by planners when they were thinking of zoning, and it got taken over by capital markets. Highest and best use supposedly maximizes its dollar value. If you maximize that value, you're putting that property to its highest and best use.

Well, I live in Atlanta, and Atlanta has had a lot of property developed pursuant to a highest and best use strategy. And, today, we're creating regional authorities to take on issues like schools, affordable housing, transportation, both on the overland, road transportation and mass transit, water and sewer issues, etc. Well, if all those highest-and-best use developments were, in fact, highest-and-best use, why are we bearing the cost of trying to fix this very broken regional infrastructure that we have? It's because maybe we need to rethink highest and best use and how it's used in real estate economics. The reality is it doesn't work. It also doesn't reflect the individual values of the people in this room. But, in terms of collective value, when we overlay our views of class and race, it does reflect that. That's the reconciliation that we, as individuals, have to deal with when we go out and practice and ply our trade.

I've been intentionally involved with mixed-income housing for about 10 years.

The reasons that mixed-income housing makes sense should be obvious. Society is made up of a whole bunch of people from a whole bunch of different walks of life, with different interests, needs. So, to develop at any of the extremes is, in my personal view, irresponsible. When we're on the high extreme, affluent, we think it's great. When we're on the low extreme, we don't think it's great, but we have no choice. And 90 percent of the population fits somewhere in that middle. Now, that says, if it's mixed income for that broad a band and for that large a population, mixed income means something different, depending on which site you are, what location, and what time in the evolution of that particular neighborhood or metropolitan area we're dealing with.

All mixed-income sites are not created equally. We have to be thoughtful about why mixed income works. The reason mixed income is a strategy that we should be pursuing is as follows. If you are forced in your development vision to think about people across a broad band of incomes, you will come up with a much better solution because you have to assume that people have needs. You have to assume that people have kids that need to go to school. You have to assume that some people have cars, some people don't. You have to think about all the issues that we call in our organization the quality-of-life infrastructure. You would not do a mixed-income housing development without thoroughly examining that quality-of-life infrastructure to see if you are placing those housing units in either a neighborhood that's healthy, or one in which there is a broader revitalization strategy so that when you roll forward 15 years you can say that you made the right decision. You don't know if you've been successful until you're down the road 10 years and you look back and you see that other people in the surrounding neighborhoods are moving in, the neighborhood is thriving, some of the original families that were there have kids and that the next generation have gone on, done well in school, are in college, going out into the work-force and becoming very good contributors to our society. When you're making those check marks on the boxes, then you know your revitalization effort was successful. It isn't automatic that because you do a mixed-income community that you're doing the right thing because it could be flawed from the start. The integration of the physical, economic and the social are essential if you're going to have a successful community.

When I talk about mixed income, I'm not talking about low-income housing tax credit unions in some public housing. I'm talking about good housing in good or getting good neighborhoods. I'm talking about serving people at one end down here and people at another end up here. I'm also talking about integrating it in such a way that it is truly integrated along economic lines without distinctions in product. So, the product we create has to be designed, developed and managed to the highest common denominator.

Okay, I've got \$10,000. What kind of unit can I produce for \$10,000? Nothing that anybody will live in. Okay, I have \$20,000, and you keep going up, up, up,

until you reach a number that you can produce a unit that somebody will live in and you say, "I've got low-income affordable housing."

The other model, which is the one we subscribe to, is we ask what is the competing market product out there like? What are the amenities, space, what are the things in there that will make John Doe or Jane Doe decide to live here? That's what we've got to produce. Then we need to use all of our creative energy to find a way to make a percentage of those affordable to lower-income families. Then, 10 or 15 years from now, you're not worried about having that obsolete product that you wish you had done something with 15 years earlier. Instead, you're stuck, and you're looking for a way to get rid of the property to some unsuspecting fool.

So, that's the strategy, and there is the debate about how much is too much money to spend on affordable housing? Well, the question is – what does it take to produce that unit that is going to be an essential and competitive part of the housing stock in the area? If it truly is a transient society and people move up and through the economic chain of different places and the person that's poor today isn't necessarily supposed to be poor 15 years from now, then you're always going to be in the market to attract the next individual to come into the community, so you can't build obsolescence into it.

So, here are the things we learned. We really did make it up as we went along, didn't know what the hell we were doing half the time.

We happen to have the good fortune of being involved as the developer of the very first mixed-income, mixed-finance community done in the country using only the Hope 6 program. That was Centennial Place. It's seven years into it. It has a few years to go, but we took the 60 acres that had 1,081 public housing units, about 450 of which were uninhabitable, and we demolished the entire community, except for three historic buildings. We rebuilt a mixed-income community that has 40 percent public housing eligible, 20 percent tax credit and 40 percent market. We have people living in the community that make \$150,000 a year next to people that make \$205,000 a year. No discrimination from unit to unit, and our market rents on a four bedroom, two-and-a-half bath townhouse is \$1,589 a month. We're not

talking about something that nobody that has a choice would want to live in.

We took some of the 60 acres, got a brand new K through 5 math, science, and technology theme school, a new YMCA and a branch for Sun Trust Bank. And, they are tax-credit investors on a number of our deals.

We're doing a retail center, a community center, you name it. It truly is trying to build on that 60 acres a totally new community. That was done with the Atlanta Housing Authority. We're working on four other mixed-income communities in Atlanta, and we're working in five other cities doing similar projects.

We learned, as I said earlier, that class bias is much stronger than race bias. The re-establishment of the quality-of-life infrastructure is probably the most important thing in determining whether or not you're building a community that, over the long-term, will be sustainable. The early signs may be good, but we don't know if Centennial will be successful. Public funds must lead the way. If you can't get rid of some of the non-economic blights that have to be overcome, no private dollars will show up to do that.

It's as important for the developer to pre-qualify the city as it is for the city to pre-qualify the developer. If there is no visionary leadership in the authority in city government, your council member, school superintendent, board of commissioners, or whatever the structure is – you're going to get stopped along the way, and you will be encouraged to do just the housing development.

All sites are not created equally. They do not have the same potential. What the right mix is and what market means will differ from site to site, because we're talking location, location, location. We always say we manage high-quality market-rate developments that happen to have some affordable housing units integrated as a part of it, as opposed to we manage nice low-income housing units.

We do know that the affordable housing tools that are out there don't make any sense. They don't work together very well. There's a huge gap in trying to get those things aligned so that it is not as much brain damage as it has been in the past. We've got to get those funds, like HOME, CDBG and AHP, tar-

geted to address the much lower income, below 30 percent of AMI, if we're going to actually reach that segment of the population.

In most of our communities where the average public housing household is more like 13 percent of AMI, we have 40 percent of our units occupied by individuals that tend to meet that criterion.

We also happen to be in the business of developing a lot of other communities that are conventional, but we always introduce some level of mixed income. If the dollars don't show up, there's a limit to how far down the chain you can go. We have probably three communities, two in Atlanta and one in Birmingham, where we're doing a mixed-income community that's market and, I hate to call it affordable, but it is affordable, 80 percent of AMI. We have the ability, therefore, to contrast what we learn on those versus the mixed income communities that have housing authority involvement or public housing eligible families living there.

Society really does have to examine itself. Societies are collective, but each and every one of us needs to look at what it is we say versus what it is we do. Our actions may not be consistent with what we say we stand for. We have an affordable housing crisis that we do not see as a moral issue, but we ought to see it as a moral issue. We advocates are as much a part of the problem as the people who are not in this room.

I challenge every one of us to do a little bit of self-examination and see if there are ways that we can look at affordable housing a little bit differently and put ourselves in the place of the person at 30 percent of AMI, 50, 70, 100, and 120, and see if we're creating communities where people would want to be specifically where we would want to be. If we're doing that, then we're probably going down the right road.

# Situation Room Reports and Federal Policy Implication Panel, I

**Moderator:** *Paul Brophy, Principal, Brophy & Reilly LLC*

**Panelists:** *Janet Falk, Executive Director, California Housing Partnership Corporation*

*Katherine Hadley, Commissioner, Minnesota Housing Finance Agency*

*Sandra Henriquez, Administrator/Chief Executive Officer  
Boston Housing Authority*

*James Stockard, Curator of the Loeb Fellowship, Harvard Design School*

*Christopher Tawa, Principal, Specialized Lending Products  
Land Lease Real Estate Investments*

**PAUL BROPHY:** From a market-segment standpoint, we have an interesting continuum. Based on some of the discussion, you can describe the discussion in the blighted market setting as one in which there's opportunity, if you've got enough scale, to create market.

And in the market area where you've got high costs and it's a hot market, getting the market to work is not the issue. In some situations, you've got enough safety and that market is willing to accept certain percentages of lower-income people in the communities. You get that kind of a market niche.

Harder is the healthy urban suburban, where we're hearing things like, "that market doesn't want multifamily in the first place." And when you then try to bring into it some of the issues related to mixed income, it becomes more challenging politically.

The rural side becomes a question of getting any numbers to work from a cost perspective. What we hear is that the preservation issue seems quite ambivalent about mixed income because the preservationists are trying to save low-income units. So we've got various [market] characteristics.

**CHRISTOPHER TAWA:** In the healthy urban-suburban market because there's a gap between market rents and low-income rents in these markets. Costs are less of land and development, and the market is in somewhat of a greater state of equilibrium between supply/demand as it's reflected in rent levels.

But the variables were tremendous regulatory barriers to entry. Communities that are very resistant to multifamily generally [did not] mind before we introduced the affordable element. A variety of local techniques – be they zoning, regulatory, appraisal and assessment matters – inhibit the ability to develop this type of housing.

We then moved on to examining ways in which we actually could get the housing done in these communities. The variables on that side – large lot zoning, architectural standards, the things that inhibit getting this done – but on the more positive, we had two contradictory comments.

One was the stealth comment, which is that we show up and do the development and not tell anybody about the affordable component. The product does not look any different than the other community

standards of building, and we slip the affordability into the community without them being very focused on it.

The other, and more enlightened approach, are some examples that we pulled from Massachusetts and Maryland, where we have state governments that have the ability to persuade and reward localities to be supportive of affordable housing. There's a great deal of money flow from the state level to the local level that could be tied to the community's acceptance of a certain level of affordability.

In communities like Montgomery County, Maryland, and in California, you have to have a set-aside of a percentage of units to do a new development in the community. In Massachusetts, you can have a zoning override if you're doing affordable units and there's not a percentage threshold [already] met in the local community.

PAUL BROPHY Sandy, how does it look from the areas that were dealing with blight?

SANDRA HENRIQUEZ: It was somewhat frustrating for some people because we tried to first figure out how we would define mixed income. Is it within a development? Is it neighborhood wide? And what does it serve? Who does it serve? Where you start, and where you want to get to, really informs your definition, and then what pieces you put together to make that happen.

Everything from a mixed-income development where there's a broad range of incomes, from under 30 percent AMI, to 80 percent, is it to 100 or 120 percent? What is market? And market is tied to location, so what may be 80 percent AMI in one neighborhood is the market. In another place, it is the lower end of affordability.

If you can do a big enough development, big enough scale, you can generate your own income mixing. Are you preserving the units or property? The preservation gets you to hold a part of your segment in your property, in your neighborhood. But when do you use it? We all agreed, [however], that in order for us to do that, subsidies and resources fairly significant up front really need to be the generator to start that discussion.

PAUL BROPHY: So subsidies certainly, and scale was important, because you're creating the ability to attract the market residents, and it will have some effects in the surrounding area if you do it well.

SANDRA HENRIQUEZ: Even if the development that we're doing to scale is affordable, the ripple effect in the larger community might then trigger other market forces to come to bear, which would then spread that effect further than just the property we're talking about.

PAUL BROPHY: Terrific. Jim Stockard, on the high-cost areas, how does this differ, or how is it similar?

JAMES STOCKARD: Some things are obvious. A lot of stress in our area in that you're building in a high-cost area and you expect to attract the upper end of the scale of incomes that you need to build very high-quality housing.

You must do excellent property management. It's a non-negotiable item. A little more surprising was a pretty uniform statement from everybody in the room – from private developers, public developers, lenders, et cetera. You have to have a very strong social services component. We even got some agreements. We had lenders saying, "We'll underwrite that social service cost in the development budget." And some similar concern around the operating side as well that this is simply a cost of doing business, a cost of running these kinds of developments.

PAUL BROPHY: And it sounds like there's room for it, and at least those who advocate it are saying there's room for it in those numbers?

JAMES STOCKARD: The costs are so remarkably high to begin with that adding the extra amount of money that may be involved in either having funds to deliver services doesn't add that much more at the other side of what the costs are.

Just one or two more notions that are a little bit unusual in these market places. One is that when you get to 60 percent of area median income in a high-cost area, you're probably dealing with working families. You're probably dealing with families that are as different from families at 20 percent or 30 percent of AMI as somebody at 100 percent. You have accomplished what it is you intended to

accomplish with some mixing of life experience, and some ability to contact with each other on some issues, but stretch each other on some other issues, as you might in other areas want to go to 80 or 120 percent for. The flip side is that some of these communities have a real struggle with the middle-class.

Once you've gotten to the edge of the affordability, you can't leap off into the private sector and be okay. At \$1,500, you can't afford a mortgage in some of these communities. You can't afford the rent for a two-bedroom apartment at that level, so there is a question of gap. That's another place where some of our folks might have said that it's healthier for the community to be able to stretch beyond the 60 percent mark. It assures you of an ongoing middle-class and ongoing budget folks for your schools and your politics that will keep the neighborhood.

PAUL BROPHY: Great. Can we talk about rural?

KATHERINE HADLEY: Sure. Within rural areas, which we defined as non-metropolitan counties, there really are submarkets that make a big difference in terms of whether a mixed-income project can succeed. You have some counties that are losing population and losing households. There are vacancies in subsidized housing. And that's not where a mixed-income project, or any project, is going to get built.

There are non-metropolitan colonies that are on the edge of urban areas where there's a likelier chance of success, and then there are some rural areas that actually have problems similar to high-cost areas. Their vacation or tourist areas are driving up the local market a lot.

One variable was knowing your market, and what you can do there. In a lot of these counties, the minimally feasible rent is the market rent. And how do you develop mixed-income housing like that?

There are also more affordable options for people who are above tax credit rents – people who are 65, 70 and 75 percent of median. There are more alternatives for them than living in a tax-credit project, or other subsidized rental housing. So the market's a lot thinner, and knowing it well is key.

The mixed-income projects that have succeeded are ones that simply have enough funds to subsidize parts of what we would call market-rate units. We talked about the fact that mixed incomes in rural settings does not really mean market rate. Finally, we talked about the product itself. If we are going to try to attract higher-income people for that market, the product has to have some features that you might not have to see with some other kind of development.

PAUL BROPHY: Janet, can you talk about the preservation connections?

JANET FALK: We came to the conclusion that preservation is one major concept, and mixed income is another, and they don't always go together very well. When you're trying to achieve preservation, the whole idea is to keep these low-income tenants in place, and that doesn't always work very well with the idea of mixing the incomes.

These kinds of projects – also project-based Section 8, where it exists – is an extremely precious resource that nobody wants to lose. In many cases, when we're talking about hot markets, we've got both hot markets and soft ones.

In the hot markets, you certainly want to prevent the opt-outs because this is the only low-income housing that's going to exist in those markets. Sometimes in soft markets, you're going to find that the project-based Section 8 project, or the Section 236 one, is really anchoring the neighborhood because it may have enough resources to really work well in those situations.

As a result of that, we spent a good part of our time talking about how to preserve projects. There are some situations where a mixed-income approach might make sense. One is in a lot of the existing 236 projects that don't have Section 8 in all the units. They have become mixed income over time. Many of the tenants have increased in income, so by preserving those, we're also doing mixed income.

Also, there are certain situations where there has been a big concentration of subsidized units in particular areas. In these kinds of situations, there may be a lot of reasons to want to diversify the income mix of the tenants.



PAUL BROPHY: It's clear that there are subsets within those subsets of markets. In Pittsburgh they are trying to type the various neighborhoods because they were trying to place successful mixed-income projects in areas that had some potential for market generation as opposed to those that were clearly in a deep decline. One of the ongoing issues in this discussion is to know how those markets fit more fully as we get mixed-income development underway.

UNIDENTIFIED PARTICIPANT: We also observed that there are very different political contexts within which these questions seem to be asked and answered. In Colorado, apparently regulation is an anathema to folks. I'm from the Northeast, and all I know about is the quasi-socialist government. Whereas, on the Vancouver side, an agency actually holds title to the affordable housing properties that it funds and then subleases with the actual operator. Very different contexts.

So when I raised the question about the healthy suburban market being cajoled through carrot and stick to accept affordable housing at the state level, it sure would be different to promote that in a Vancouver or Massachusetts or D.C. area, than it would be in a Colorado or, God forbid, Nevada.

PAUL BROPHY: So you are really adding a layer. It's both knowing the market, then understanding the political context and what is possible or not in certain settings.

UNIDENTIFIED PARTICIPANT: It means it's perfectly reasonable to fund a \$250,000 TDC. That's what the story is in those places, and that's what it takes to get the job done in those places, and people of modest means need a place to live in expensive places as well as inexpensive places.

PAUL BROPHY: What actions came forward in the discussions that ought to be taken by any level of state government, or what tools seem to be needed in order to help facilitate the development and ownership and management of successful mixed-income housing that has an eye toward the very low-income population?

JAMES STOCKARD: There were two huge ones in our workshop. The first one is stated simply – I will not say this in too complicated a way, so I hope you'll

bear with me – more money at all levels. We talk about ways of generating more money at the federal level; of states beginning to allocate their tax credits in different ways, beginning to create trust funds, and of local communities creating trust funds. It certainly makes a huge difference about the longevity of the affordability and the ability to close the gap if you start with a big capital subsidy. Big capital subsidies cost big dollars, and you get fewer units in a particular year, but you get them affordable for longer. In our workshop, you've gotten a pretty large vote in favor of that side of the equation. Not unanimous, but a pretty large vote.

The second item in our workshop – we seem to need a lot of financial partners for these fiscal deals. The layering process adds a ton of dollars for questionable value added for the family that now has an affordable unit.

Asking that question at every stage of the layering of the partners is a valuable question. [The] consultants, architects, accountants, syndicators, lenders – how much of each of those dollars really contributes value added to the home that a family lives in.

PAUL BROPHY: So you're saying money and – was the second point essentially a simplification of the layering?

JAMES STOCKARD: I would go for no layering, myself. One problem is that each of those partners has a slightly different set of goals than the simple pure goal of a low-income unit for a low-income family. And as each goal gets a little piece of the puzzle, it adds a little more cost to getting the deal to fit for each of those angles.

UNIDENTIFIED PARTICIPANT: I'm actually not sure that's limited to the high market areas. That seems to be pretty pervasive generally.

UNIDENTIFIED PARTICIPANT: If there were enough money that came from one source, we wouldn't need eight different loans on a project, and all these different actors.

PAUL BROPHY: Are there other tools or issues that came out of other sessions? Chris?

CHRISTOPHER TAWA: We observed that in a

healthy suburban or urban market, it's very likely healthy because there's growth going on. There's new job creation. There's income growth. There's population growth. And thus, there's new investment in the community.

We observed that healthy markets such as this seems to be at a moment in time, and often they're transitioning towards being an unhealthy market, which is a market where there's greater stratification between market rents and affordable rents. Rising values and rising rents are squeezing out affordability, and we're moving towards the high-cost urban or high-cost suburban model.

Something that would be useful in this context would be a preservation "light" type approach where we could take existing stock and preserve the existing affordable stock before it became unaffordable. Most of the existing affordable stock will have somewhat lower housing quality because it has less capital investment over time. We need a rehab component to also bring that housing quality up. But in so doing, we don't want to have it in a way that then prices the existing resident out of that market.

We talked about developing some type of an acquisition-like rehab program that comes with a preservation element to put a cap on rent increases and preserve occupancy. That's a very difficult task to accomplish in our existing array of subsidy programs that reward very high-cost projects.

PAUL BROPHY: And does the tool you're describing work in the current institutional framework?

JAMES STOCKARD: The tools that we identified might be helpful. Bob Spangler, who's an investment banker, commented about using 501(c)(3) bonds, which give you the taxes and rate, and affordability protection. We also talked about utilization of regular mortgage-revenue bonds with 4 percent credits, but again, that brings us into the whole area of tax-credit value and investor interest in that model.

KATHERINE HADLEY: The issue in rural areas is that the income and rents are so low that a two-income family cannot rent in a tax-credit project in rural counties. They're always over income. So if HOME is one of your sources of subsidy, that ratch-

ets it down even more. People are finding that when they try to use tax-exempt bonds and 4 percent credits, the rents are so low that you can't even get bond financing for 50 percent of the project. You can barely make it, so that tool becomes unavailable in nonmetropolitan counties.

The approach that NCSHA and others are seeking [is] legislation that would change tax-credit-rent-and-income determinations, and the tax credit program to the greater of state or area median. It provides some relief for nonmetropolitan counties and is really an approach that we should think about with federal housing programs.

The other type of tool we need is some way to get development funding that would allow some smaller percentage of units to be higher than the 60 percent, or whatever, that still gets some kind of help on the construction-subsidy side.

PAUL BROPHY: So you're looking at flexibility on both ends of the continuum.

SANDRA HENRIQUEZ: Bigger chunks of money up front to help underwrite those costs down so they can stay affordable. We talked a little bit about deepening HOME subsidies and changing the rent structure so that they get low enough, and also ways to try and incent developers with tax credits so that they can use those to support human development. The driving force for doing mixed income tends to still leave behind people at the very, very low spectrum of the income. And not only leaves them behind, but then puts in place so many roadblocks seemingly to get them into successful programs for which they might benefit.

JANET FALK: Well, we came up with two types of programs. One was on financing Section 8. One of the big issues on both preservation and possibly mixed income is that when the Section 8 rents are over the tax-credit rents, lenders are not willing to finance that increment over the tax credit rent, nor are investors willing to invest in those projects. That might be achieved. When cities are willing to guarantee the Section 8 piece or to use Section 108 loan guarantees to guarantee that. That would be a way to leverage the debt on that and make those projects more feasible.

A second suggestion was large concentrations of poverty or deteriorated units that we wanted to turn into mixed income – essentially decouple the Section 8 from those existing units and allow the Section 8 to be used somewhere else. A little bit of the HOPE VI concept, where the Section 8 would remain. We wouldn't lose that subsidy, but it wouldn't remain on those units. It would be put on some other units somewhere else in the community and allow those existing units to be either mixed or even torn down and reconstructed.

**JAMES STOCKARD:** In the High-Cost session, there was also a lot of concern about families at 20 percent, or 15 percent, and 10 percent of AMI – many of our public housing residents.

The simple short answer – it's either a Section 8 subsidy or it's a public housing operating subsidy. People in our room said, "Let's take the limits off of allowing housing authorities, how much Section 8 housing authorities can project base," particularly in these high-cost markets, where the Section 8 walkaround certificates have some limited value anyway. Families get a 30-day trial and two extensions, and they still can't use it, and we have a 40 percent usefulness ratio. Why not let those authorities use more of those certificates for project-based activities?

And, secondly, why not explore further some partnerships with housing authorities that would transfer operating subsidy to various developments by leasing and buying units, and simply striking a deal with an owner to occupy three of your eight units and transfer operating subsidy to make up the difference.

**SANDRA HENRIQUEZ:** A lot of that is going on. The one downside we've got to figure out how to work through is all the regulatory responsibilities. For a small landlord, or for anybody, that's a killer. That's a killer for large public housing authorities. To move that across to a smaller landlord will probably defeat the whole issue of affordability.

**UNIDENTIFIED PARTICIPANT:** Our group commented that there's a great importance for community acceptance of mixed-income properties, especially in these suburban locations. [It is of] great importance to have that housing be of similar quality from a design-and-perception standpoint as what is already in that community. We have to then manage it to market

standards so that the acceptance of the new housing resource in that community will be seamless.

We have to expect that there's going to be certain costs associated with design consistency in existing communities. We have to confront the issue of a lower AMI value by bringing that in and no, we're not lowering your value. There's a price tag to community acceptance and being straight up on issues such as this. It's a cost issue, too.

**JANET FALK:** Chris, you could be saying exactly what Chris Shea said from Pittsburgh – good management, quality design and location apply, because that's what everybody wants, and your housing should look as seamless as possible across the spectrum. This helps to mix the incomes and provide the ability for market rate to come into that neighborhood, either in the project itself or the larger neighborhood. You now have a valuable product that is treated according to real-estate-industry practices and principles, not something different.

**PAT STEVENSON:** Hi, I'm from Lafayette, Indiana. We've identified some great challenges this morning and some possible solutions, but when we're talking about reaching our lowest income families, we're often saying that the most efficient way to do that is at scale. Those of us who are practitioners in neighborhoods and communities deal with a lot of other pressures, such as community standards, zoning just isn't possible.

Our challenge isn't just reaching the low-income families, but how to do that in the context of strengthening our neighborhoods, which is one of the things that this [symposium] is all about. Probably the most efficient way to do this in some communities simply contributes to more sprawl. We really need to take the challenge to that next level.

**FRANCES FERGUSON:** As Mr. Perry said, the mixed-income housing conversation is about helping neighborhoods. We built this unit first for someone who's poor, and this unit for someone who's not so poor – all these income-segregated communities. It is quite clear that in a blighted neighborhood what we ended up with was unhealthy, but that there's beginning to be recognition that it's not so healthy to have a bunch of rich people either.

If you're looking for a healthy neighborhood that has a full spectrum of people in it, when you're developing mixed-income housing, you may not always be doing this dramatic full-range mix. In some cases you may already have a fairly high mix, and a mixed-income project in a fairly strong market might actually be a 30 to 60 percent mix. Does that still count, or is that part of the context of the conversation?

**PAUL BROPHY:** The challenge is having a conversation in which we're labeling a category of developments mixed income, when, in fact, they have different goals and mean different things in different marketplaces.

**FRANCES FERGUSON:** It's what we meant by the fit. If you look at what you need in that community, what you've got, what you want to get to, and where you then can target your resources to fill in the gaps to make that continuum. Doing home ownership might be filling in a gap because you've got renters who are moving through the spectrum and are now ready to hit, or you have renters who just need to go to another plateau and there's no space for that, and that's what you're developing. You've got to look at the whole picture.

**UNIDENTIFIED PARTICIPANT:** Francie, I think you've raised a really important issue of whether we're talking about mixed-income projects or mixed-income neighborhoods. I prefer to look at it on a neighborhood basis. When you're building a low-income affordable project, that may be mixing a neighborhood because it may be the only affordable housing you're ever going to get. Financially, it may be a lot easier to do a single project. We're not talking 700, 800 units, or 300 or 400 units. We're talking 50-, 60-, 80-unit projects, which have the value of mixing the neighborhood. Financially what you lose with the tax credit, you don't gain by raising the rents to 80 percent of median income. It may be more cost effective to do a smaller, lower-income project in a higher-cost neighborhood than it is to try to do one project that covers everything.

**PAUL BROPHY:** Frankly, it's one more reason why simplicity and flexibility of funding is useful. As you try to put together eight-and-a-half funding sources, which is what the APT study said is the average, inevitably, one or two of those sources will say that they only want to build in neighborhoods where

there's no affordable housing or that they want to do three- and four-bedroom apartments.

So you lose one or two of the good sources, because they don't fit. Or, worse, you planned the wrong development, because it's what the funding is available for. If there were fewer sources, but more money in those fewer sources, they could be very flexible and let you tell them what you needed, because that's what the neighborhood needs.

One of the reasons we don't do so well with it is that we get ourselves boxed in by saying, "We've got to do something, and this is kind of the best we can assemble from what's available."

**UNIDENTIFIED PARTICIPANT:** The criteria that we have for our development funding, both for a single family and multifamily tax credits and subsidy money, is the notion of promoting economic integration in the community. It may be that in the lowest-income community what promotes economic integration is home ownership, where we aren't going to try to keep the income limits for that project down at 50 percent. We're going to go higher than that. What promotes economic integration in a high-bucks suburb is a small scale, tax-credit project where we try to make most of it be at the lowest income we can achieve.

**PAUL BROPHY:** It is a big challenge to avoid the trap of trying to develop a program that fits multiple needs. Neighborhood improvement is based on market realities, we need a broad spectrum of flexibility if we get further help.

**JEANNE PETERSON:** I am Jeanne Peterson from the California Tax Credit Allocation Committee. We did talk about more money, but we also tried to think about non-financial incentives. Some of those were pretty far-ranging, such as: modifying the next-available-unit rule to achieving longer-term affordability through the requirement of restrictive covenants that require longer-term affordability; changing the rule at the federal level on the multiple layering and permitting tax-exempt bond finance projects to get the 9 percent credit instead of the 4 percent credit; encouraging municipalities and states to enact statutes or ordinances that would provide for tax exemption for affordable deals; from inclusionary zoning policies, to land banking, the conversion of Section 8 certificates of project based,

only coupled with a longer-term contract.

All of those things can be done through state credit agencies and their qualified allocation plans.

One of the things we didn't talk about was a requirement for one-for-one replacement in HOPE VI deals. What really is happening to those people who are being displaced? There are a few places in the country where HOPE VI deals actually require one-for-one replacement, but not enough, and perhaps that should be a federal requirement of the HOPE VI program.

PAUL BROPHY: Pittsburgh lost half of its population, has lots of vacant units and may not need one-to-one. California clearly could benefit from one-to-one replacement. It varies.

MARK LOWBACHER: My name is Mark Lowbacher with the Lowbacher Company. It occurs to me that the request for more money could be made by any policy-area environment – job training, education or defense contractors, for that matter. It's really the industry's responsibility to identify what works, and what's broken, and how we make do with what we have.

It seems that the workhorse program is tax credits, but for 15 years, the basic deal that tax credits do is not mixed-income housing. The best tax credit deal is something that hits people 50 to 60 percent of median. States can coerce developers to do more than that but in order to do that, they use up soft subsidy money.

The industry [can] tell Congress that we know how to run the tax credit program – to the extent that if we provide a unit for someone at 40 percent of median income, should we get a 12 percent tax credit on that, instead of a 9 percent? To the extent we provide the unit for someone that is at 25 percent of median income, we should get a 15 percent tax credit. To the extent we provide a quarter of the units to people in between 60 and 100 percent of median, maybe we get a 20 or a 25 percent basis boost.

I don't know that Congress will come up with more money. The tax-credit program was intended to be a mixed-income program from the beginning. However, we have GAO reports that show the vast preponderance of deals are 100 percent tax credits. Just some tweaking in a few lines of the tax code would get us the warhorse program of production on the

way to stimulating mixed-income housing without throwing in tons of soft second money.

People also said there were a lot of problems with the HOME program. Why not ask the Feds to create an exchange window that if the state of wherever says, "Let me exchange \$10 million of HOME and I get X million more of tax credits." This could be repeated for all the different subsidy programs where the state could exchange one product for another.

KURT CREAGER: I'd like to tease out one issue: human-capital development and the notion of social capital underwriting. Who pays is the fundamental question, but, there are some good examples, and maybe we can build on those examples. The Gates Family Foundation has made a \$50 million commitment to match social services to tenants placed in project-based rental assistance by three urban counties in Central Puget Sound, an area of about 50 percent of the state of Washington's population.

It's a significant financial commitment and the net cash flow that comes out of the project is used to match the Gates Foundation, so it's a twofer sort of leverage that is being obtained. How do we best support very low-income people living in mixed-income communities, if we all agree that human-capital development is worth the cost? I know my political environment real well, and if I add up the total operating cost and the total capital costs of a project and put that on the table in front of any elected official, it won't fly. So I'm willing to accept the incremental financial packaging approach as a political reality.

PAUL BROPHY: Thanks for the reality therapy. There's lots of work that still needs to go on, and I hope that Neighborhood Reinvestment and the other sponsors of this overall session will find a way to continue the discussion on this agenda because it's so important to the future of good housing in this country.

Thank you to our panelists, and thanks to all of you for your participation.

# Situation Room Reports and Federal Policy Implication Panel, II

**Moderator:** *Michael Pitchford, Bank of America and National Housing Conference*

**Panelists:** *Michael Bodaken, National Housing Trust*

*Renée Lewis Glover, Millennial Housing Commission*

*Saul Ramirez, National Association of Housing and Redevelopment Officials*

*Garth Rieman, National Council on State Housing Agencies*

GARTH RIEMAN: There were several items that came out from the session [on federal policy], but the first among them was the need for adequate resources. Obviously, it's a major concern and a primary federal responsibility to provide the resources necessary to develop the housing and the subsidies to make it affordable to the extremely low income.

We also talked about the ability to use resources flexibly to accommodate a number of different submarkets and development models. That's very important and also a federal responsibility. The current range of federal housing programs give developers and users various degrees of flexibility. One of the things that NCSHA is seeking in this context is a new flexible production program that would give money to state governments for uses that are even more flexible than, say, the HOME or other grant-type programs. Whether there are ways to improve housing credits, HOME, and other programs to make them more flexible is also something that should be on the federal radar screen.

Part of the effort to make units affordable is just to provide direct assistance to the extremely low-income families. In the current context we're talking about Section 8 or public housing operating subsidy to do that, but there's also discussion about whether we need new forms of subsidies just for extremely low-income families, what some people are referring to as thrifty-production vouchers.

There would be a form of rental assistance that would be specifically designed to represent the dif-

ference between what an extremely low-income family can pay at 30 percent of their income and operating expenses; not a larger rent that [also] incorporates capital costs and debt service.

This assumes that the capital cost is going to come from somewhere else, and it's not realistic to think that just housing credits, HOME, and existing capital sources are going to be able to provide any volume under that model. If we talk about a thin voucher at the operating level, we have to think about where those additional capital expenses or subsidies come from if you have units that you want to preserve and make affordable. Maybe the answer is current Section 8, with more vouchers and more flexibility. Maybe it's another form of rental assistance or operating subsidy.

Lastly, just two issues. In the rural submarket session, there was a discussion about allowing the use of statewide median-income figures instead of area median income, where the area median incomes are too low to really make development feasible under current programs. NCSHA is pushing that right now.

In the Healthy Urban and Suburban Market session, we talked about the idea that HUD's proposal in this year's budget of taking some of the current public housing capital and operating subsidies and allowing PHAs to convert that assistance into project-based Section 8. This gives them more flexibility to design different kinds of financing models and move more to a business model that incorporates more

market discipline and would allow them to do things that they can't do under the current public housing programs. Although NCHA doesn't really have a position on that, it is something for congressional policy-makers to think about. It may give housing-finance agencies, other lenders, PHAs, and a lot of other stakeholders an opportunity to rethink how they use some of their subsidies and to use them in a different way.

One of the questions that we might talk about is whether PHAs have enough flexibility to move all the way towards that model.

MICHAEL PITCHFORD: Garth said, five times in your presentation, flexibility or flexible. And we heard from Jim Stockard earlier, just send more money. And we got sort of an "Aw" out of the audience, like, "Well, that ain't a happening thing." Do you think that flexibility's "a happening thing"?

GARY RIEMAN: There are a number of congressional policy-makers [who agree] and a sign that the administration is already proposing to make public housing subsidies more flexible in some of the changes [in the HOME program] that the housing subcommittee chairwoman Rockama has put into her housing bill.

The idea that the Millennial Housing Commission appears to be moving in this direction means that there's momentum behind that discussion. There's always the congressional and administration's perspective of wanting to make sure that they set controls and guidelines and have appropriate oversight, but the discussion to gain more flexibility really has momentum, and I'm hopeful that we can provide resources with more flexibility.

RENÉE GLOVER: One of the underlying questions that seemed to keep coming up is whether or not it's a good thing to move toward mixed-income housing. The reason that it's a good question is that people are still inside of the conversation of, "Can this really work? Can we really mix families across such a broad range of incomes? And is that the right thing to do?"

If nothing else, we practitioners really agree that there is so much evidence that housing all poor families in warehouses doesn't work. The need for

human supportive services actually grew out of the fact that we shouldn't have warehoused families in the first instance. What we're really trying to figure out is how to model behavior inside of these mixed-income communities, or viable communities, that have come from having isolated the families in these dysfunctional arenas.

It would be very powerful if we all – practitioners, investors, developers, Fannie Mae and Freddie Mac – sat down and wrote our different Congress people and said, "You know what? This is just fundamentally sound policy, and the question is how we get there."

I share Mike's jaundiced view about how we simplify the rules and regulations. And they should be simplified. When you think about the cost of the just sheer foolishness that goes around some of these programs, it doesn't make sense. Sandy asked why you couldn't take the operating subsidy and use that as a tool to help buy down the cost of rents in an otherwise unsubsidized property. Well, the reason is that there are about 10, 20 or 30 inches of regulations that would, quite frankly, make that totally financially nonfeasible, and you can't get rid of it.

People hide behind it. If we, as a group, actually came together and said, "We believe in this, and we support whatever is needed to be done to move to a simpler reality," it could happen. I will tell you this. If regulations would solve the problem, we would have solved this thing a whole long time ago. But what the regulations seem to get is more and more regulations. Somehow, as an industry, we can really come together and get this resolved.

I think the question that we're begging is, as a society, what kind of society do we want to have? And if you think about it, and this is going to have a religious slant to it, so I'm going to say that up front. So I hope I'm not offending anyone. But the question really is, if we are all creatures of God – and I'm not saying which religious group one comes from – and you were called in by God and said, "I want you to create some housing for my people." Okay. "These are my people, and I care about them." How would you set about undertaking that task?

And you say, "Yes, God, I'm going to get right on it." Now, would the first thing you do be to run and say,

“Well, gee. Is this housing going to be too nice? Is it going to have air conditioning? Well, gee. That might offend those who have air conditioning and who are working every day. What about poor people who have air conditioning. No, let’s not have air conditioning, because that might look wrong.”

Are we going to mix incomes so that we can have healthy communities and strong schools and all those things? Well, maybe we shouldn’t do that because, after all, those people over there, they’re really the losers in society. If they would just be better people, they would have these things, and they should work for it. Are we building housing for winners? Are we building housing for losers?

So when we go back and give our report card back to God, and say, “Well, God, I got started on this project, and I kept getting tripped up over whether or not these folks were winners or losers. God, of course, will say to that, ‘Well, of course, the policies drive whether or not you have winners and losers.’

If we could get to that type of approach in terms of looking at all of the design of these things, it would help us clarify what it is that we’re supposed to be doing. What is it that we’re trying to accomplish? We shouldn’t spend public resources of any sort that would end up creating a group of winners and losers. The vision and hope should always be to provide housing where the people are going to be thriving and successful, because we cannot afford to do anything differently.

We are creating the next group of terrorists as long as we lock people out of the American dream, because it is even more offensive when you have this country of plenty, and we can’t seem to get it right about the types of policies that need to support great housing.

MICHAEL PITCHFORD: You’ve enforced the notion of flexibility. Let’s just say for a minute – meaning to make no direct connection – that HUD is God, and HUD has said, “Go out and build this housing.” And it comes down to your level, and you’re in a local community with local politics. Can we get mixed-income housing done with those field restrictions, and are local politics going to allow that?

RENÉE GLOVER: Absolutely. We’ve done it overwhelmingly well, even with all the regulations and foolishness, in the city of Atlanta, and Atlanta’s not different in terms of the politics. All politics is local, but the thing that has resonated well is the notion that real-estate-market principles are going to be applied in producing the housing, which takes away immediately the whole concern at NIMBYism and [whether it is] going to be managed well, and what is it going to do to my property values. If you’re going to have something that isn’t going to blend into the neighborhood, or it’s not going to be managed well, then everybody should get together and vote it down. If we use good common sense, real-estate principles, there’s no reason why you can’t mix the subsidies and do exactly what needs to happen.

MICHAEL PITCHFORD: So capitalism and flexibility coming together the right way win out?

RENÉE GLOVER: Absolutely.

MICHAEL PITCHFORD: Okay. You heard it here first.

SAUL RAMIREZ: It goes beyond morality and becomes more of the social impact that housing has and, as such, needs to be addressed in a national way. And developing that policy is important for us to take the next steps as a nation.

We’ve got a great opportunity, I believe, with the Millennial Commission doing the work that they’ve done. And we can go one of two ways with that. We can say, “Great. Here’s another report. Put it on the shelf, and that’s it.” Or truly look at what it brings to the table, and from there, be able to craft a national policy on housing.

There’s got to be a clear acknowledgement of the commitment of resources to the effort that’s put forth. But the true commitment of resources that is needed can’t be quantified. It’s the allocation of those resources, whether it’s state funded, or formula based, and how we distribute them in that it has to be done in a way that will create the kind of pass-through to get to a true mixed income, home ownership, or whatever policy is developed along those lines.

And, of course, the “flexibility” cry. We all agree that there are a ton of different housing programs, but



they have conflicting regulations, conflicting rules, and how do we bridge those to get greater uniformity and greater transparency so that that flow can be that much more flexible? The pipeline's there. It's feeding that pipeline with the resources that's hurting our effort.

There is going to have to be a commitment of operating subsidy from different revenue-generating activities or federal programs combined with states.

There will always be a demand for an operating subsidy, simply because under this current administration, HUD is pushing away from services. We need to tap into HHS or others to provide the kind of services that need to be in mixed-income developments if we're going to hit the 30 percent or below median-income families. They do need services, and they can't be underwritten as part of the costs of the project, because projects are already stretched in trying to make that dollar.

Finally, in developing this national policy, there has to be a commitment to setting some longevity to affordability to provide investors with protection in the case of opt-outs, but to keep properties, and then find a real commitment to creating the inventory for extremely low-income families. [It should] be geared for the 30 percent or below, but with a real commitment to making that happen. As projects get squeezed, that's the group that gets squeezed out first.

We do need to find the political will as practitioners to develop that policy and push that agenda forward. It's been opened up to us through the Rockomor bill, and the flexibility that may be created through the Sarbanes bill on Section 8. We just need to take charge and seize that opportunity and craft that national policy.

MICHAEL PITCHFORD: So, do we have a national policy on housing today?

SAUL RAMIREZ: It's fragmented. It's stratified at different levels with different goals.

MICHAEL PITCHFORD: So we have a national housing policy, but we don't have a coherent national housing policy?

SAUL RAMIREZ: I guess some would argue that we do have a national policy. But it's a home-ownership

policy, and it's a policy by default, and one that is always generated by a happenstance effort of bringing in different sources of funding to carry out whatever that other policy might be for mixed income.

MICHAEL BODAKEN: Somehow, the discussion has moved into national housing policy, and that's okay. I want to focus on this because I really think that's what we're going to try to do today.

In all of the groups that I attended, mixed income was defined differently. That's a good thing because all of these different markets are so different that mixed income shouldn't be defined the same. If that's true, putting together a national housing policy or a federal housing policy requires a lot more deliberation. I would argue that rather than a national housing policy for mixed income that what we try to do is figure out a way to use the federal government's power to encourage others to revive our neighborhoods and, at the same time, keep housing available to the lowest income households.

I spend a lot of time on the Hill asking for more money, and the last time I did that, Jonathan [Miller] said to me, "It's complicated. There's the budget authority outlays, and there's budget authority build-up, and there's OMB and there's HUD, and there's taxes, and there's appropriations, but Michael – no."

It's important for us to recognize that a lot of the easy money is gone. It's not gone for a good reason, but it's gone. In keeping with this theme, what can the federal government do realistically, and they can do a lot to encourage outcomes that we're trying to achieve.

First, is the National Housing Trust Fund. Embedded in the National Housing Trust Fund vehicle is a thing called a matching grant, which rewards state and local governments to encourage certain outcomes. In that case, it's a preservation notion. But there's no reason why that simple idea of providing more monies to state and locals that do certain things could be embedded in outcome for mixed income, whatever that might be.

The National Housing Trust Fund bill essentially provides two-for-one dollars for where state and locals provide their own dollars for preservation, and one-for-one where they steer federal resources

to preservation. Well, forget preservation. Let's not talk preservation. Let's talk mixed income. Why couldn't the federal government put together a program that encouraged state and local governments to do what we're talking about by rewarding those who are doing these outcomes? I really do believe that this could be achieved.

The second is with the Millennial Housing Commission, which is really exciting. I looked at Garth's notion of a thin voucher. The Millennial Housing Commission is coming up with the notion of a thick unit or a fat unit. Basically, it's a one-time, up-front capital payment to allow a developer to access the costs for development, the acquisition and the rehab. This obviously can be coupled with the thin or other kinds of vouchers for operating subsidies, and you could steer this one-time capital payment to developers and tell them to use it only up to a certain number of units in your development, and essentially reward people for doing mixed income. It makes the deal doable with that one-time, up-front capital payment. Now, that costs money. It's an up-front cost. It gets scored higher in federal parlance, but it does reach the families that we're trying to reach and produces the outcomes that we would agree to.

I hadn't heard about the acquisition rehab, the notion. It strikes me as very doable, to put together some kind of program with 501(c)(3) bonds – and with a moderate rehab grant or loan to, again, encourage mixed-income opportunities. There is no reason why you couldn't do that and do mixed income. We've done 1,700 units on our own and about 3,000 other units that you'd call mixed income. Twenty percent are set aside for extremely low-income families, and they usually get vouchers. And it would be tremendous for us if we had a moderate-rehab source for those units. It seems something the federal government could be interested in, if it was marketed the right way.

And then I'm going to conclude with this very specific notion that Janet Falk brought up – “decoupling the Section 8.” It's where you have an over-concentration of Section 8 units in a particular neighborhood. You don't want to lose the property-based Section 8. It's a unique resource. It's a precious resource. But there's no reason why it has to stay in that particular project. If we're trying to revitalize neighborhoods why not

figure out a way to keep that resource, if you have to, tear down the units, do something else with it, and put it on a project that really does need that resource. That's an exciting notion, and as far as I can tell, doesn't cost the federal government a cent, which seems eminently doable within this environment.

The notion was introduced in Congress, very late last year. I don't believe there's significant opposition, and it seems to me something that would be very useful. It's like HOPE VI'ing over-concentrated Section 8 developments.

FRANCES FERGUSON: Could tax credits become a more flexible tool? I keep hearing from folks in the investment community that mixed income is really tough with tax credits because it's hard to underwrite. It's hard to underwrite because it is a challenging thing. It has to be managed really well, but a big part of why it's hard to underwrite is because of all the compliance rules. You can lose your tax credits because something wasn't done right.

And, similarly, why you couldn't get more acquisition rehab done, why tax credits aren't used more often for that, since so often there's perfectly good Class B property out there that could be quite reasonable. It's reasonably mixed, sort of 80–30 property, but there's so little money that goes to that.

The investment community just doesn't find the return through the tax-credit program if it's rehab, and so the dollars just won't go there, but it seems like, intuitively, a less-expensive way to create a lot more long-term affordable housing that would be, then, deed-restricted and mixed.

Is there any appetite in Washington for looking at some of those elements of the tax credit that are truly statutory, that can't be QAP'd away? Couldn't different credit percentages – the nine, four, could it be twelve – make it easier to either mix or to acquisition-and-rehab existing properties and then dedicated?

UNIDENTIFIED PARTICIPANT: On the compliance side, in simplifying the existing program, there are probably some areas that we can do that, but a certain amount of compliance is necessary to insure that you're meeting the goals of the program. While IRS has required allocating agencies to do some

more work to insure compliance, I'm not aware of that being a major problem, certainly, in this context of doing more mixed income, or just producing as many units as we can. Although it might have a headache factor, if we can reduce the hassle factor, I certainly think that would be great.

We are curious about proposals to provide a different housing-credit percentage that relates to targeting. We're concerned particularly on allowing a higher credit for more deeply targeted units. We're nervous that with an existing amount of scarce resources that are already completely utilized, you're going to get fewer units under the existing program, and a lot of allocating agencies are nervous that that's not the trade-off they want to make right now.

When you take stock of the existing programs and realize that we are getting a fair amount of mixed housing out of them, and a federal policy evaluation needs to acknowledge that while there's a conventional wisdom, that housing credit deals are right at the band – to 60 or right up to 50. The evidence doesn't really show that it's true. There are a lot of housing credit properties that are more deeply targeted, are mixed income, usually with additional subsidies, which are probably necessary, vouchers are otherwise. But when the GAO looked at this, they found that housing-credit properties were targeted well below the income limits.

Under the HOME program, many of the units are targeted well below the targeting limits. So even under existing programs, we're using the flexibility that we have now to do some mixed-income housing. The more we can use the flexibility and show that we can achieve good outcomes, including good mixed-income housing, then the more flexibility we'll have to do even more in the future.

CUSHING DOLBEARE: One of the things that would make the tax credit work a lot better is the concept that was already referred to that the Millennial Housing Commission is thinking of – a 100 percent subsidy for units in another development that would be occupied by extremely low-income families. One of the problems with a tax credit is that you have to find other subsidies, and you have to look sometimes four or five different places to get those subsidies. Whereas, if state agencies had the 100 percent capital subsidy when they allocate the tax credit for a

portion of the units, that's a vehicle for providing the mixed income going down to below 30 percent of median without adding a lot of complications. If we recommend it right, and if it gets adopted right, that will add to flexibility.

I have been reluctantly convinced that part of the reason we don't have an extremely low-income production program and haven't had one of any scale since 1981 is because we have linked the production and allocation of extremely low-income units with the requirement for an operating subsidy.

Everybody knows that you're going to need an operating subsidy to make those units affordable at the 30 percent of income standard, but the median-cost income ratio of extremely low-income households – and this includes the subsidized households – is close to 70 percent of their income. It probably means they didn't report all their income. Maybe it's closer to 50 percent.

We would be well ahead if we simply said, "Look, the critical need is for units that are built for and set aside for extremely low-income families, not affordable by our standards, but more affordable than the housing they're now living in, and better housing."

That's a major step forward, and I would urge us to think in that context and to complement that by pressing much more than the housing community has. The housing community has been so concerned with how we get enough operating subsidies to make extremely low-income units viable, we haven't paid any attention to the shortcomings to the major income-support programs. We need to look to increasing SSI so that elderly and disabled people can afford housing when it gets 100 percent capital subsidy. And increasing the low-income housing – the earned income tax credit – and scheduling it based in relationship to the housing costs in the area where people live. If you get an EITC, it should be enough so that you can afford housing or come closer to affording housing in the area where you live.

One of the ways of getting flexibility and getting out of the box that we're in is to disaggregate some of the things we're doing, to provide some components that can easily fit together but not require that they are always fit together by a specific formula.

MARK WELCH: I'm from one of those states that deplores government intervention. In reading

through one of the drafts of the Millennial Housing Commission's ideas, including the revival – it looks like a revival of what we call the 80/20 program. And for those that are not familiar, as I recall it, 20 percent of the units would be affordable to 80 percent AMI in exchange for tax-exempt financing.

We had this program up until the 1986 Tax Act and along came private-activity bonds that come with tax credits and a few other things. The 80 percent AMI in Colorado is well above the market in most of the areas we work. There's very little gained in exchange for a limited public resources: tax-exempt financing.

Maybe there's a continuum that people have talked about. At 80 percent you get tax-exempt financing and no tax credits. If you ratchet it down to 60 percent AMI, you get tax-exempt financing and 4 percent tax credits. Maybe if you go down to 40 percent AMI, you get tax-exempt financing and 9 percent credits instead of being knocked out of the box.

This is the program that comes the closest to creating a tool for mixed-income housing finance, but I've only heard the 80/20 end of it, and I know there are proponents at that end. In some states, that makes a lot of sense. I'm from a state that it doesn't seem to make a lot of sense.

MICHAEL PITCHFORD: Renee, do you want to, as a Commission member, say something more about that?

RENÉE GLOVER: There is also this flexible voucher or the thin voucher in which there would be an ability to further subsidize a portion of the affordable units to bring the rent down to a percentage where extremely low-income families could be inside of that community.

But you're absolutely right. It depends on the different areas. For example, in Atlanta – and this is actually amazing – the metro area median income is now up to \$77,100. So if you took 80 percent of that, that if you took the city proper, that's probably greater than the majority of the families who live there.

So, clearly, there's a challenge of getting incomes up through other strategies, but without having another tool so that we could bring extremely low-income families into that, you're right. It's a missed opportunity if we strictly look at it at 80 percent and below of median income. So that's part of the proposal and how you broaden the income served in an otherwise

mixed-income community.

ROY LOWENSTEIN: Roy Lowenstein with Ohio Capital Corporation. Another tweak in the tax-credit program to achieve more of mixed income population would be to give states the option of allowing projects to rent up to 80 percent of median and still get tax credits on those if an equivalent number of units were committed to people down around 30 percent of median or below. You could maybe take up to 20, 25 percent of a project and rent it to people above, and still get tax credits on those, if you committed an equivalent targeting down below, say, 35 or maybe even 30 percent of median. So you'd still get 9 percent credits on all of the construction.

Again, that would not be mandatory, but states could choose that. In the Midwest, South and the Mountain States it's pretty much the same thing where above 80 percent of median, most people own houses. You do have a fair percentage of the population between 60 and 80 to where they might be interested in a rental situation. You could charge higher rents for those units in exchange for serving the people who are really currently falling below what most tax-credit projects have to charge in rent to make the deal work.

This would be a fairly simple solution in that it would be optional and also wouldn't require tinkering too much with the other sources of subsidy to make these deals go and would make some units affordable in exchange for meeting the higher income need. You wouldn't have the problem of having mixed-use projects where you'd have no tax credits on the units that are for the people between 60 and 80 that cause all those regulatory and compliance issues.

GARTH RIEMAN: We have felt that proposals to allow credits for units with residents above 60 percent of area median income was dangerous. Part of the support and value of the program was seen as coming from the fact that it was targeted at 60 percent below, which gave it a particularly favorable targeting ratio. To start going above that might detract from that. But the way you're presenting it as a trade-off, to make the program more flexible, to give HFAs the opportunity to do it, to have a quid pro quo of also serving the extremely low-income – it might be very interesting. I'd be curious about what the other HFAs think because we really work for them.

HELEN DUNLAP: Helen Dunlap, with Shore Advisory Services. I want to go someplace different for just a moment. I want to reflect on when Francie first called me and said that you were thinking about doing this symposium. My observation was that, at the end of the day, we would be having a conversation about how to manipulate resources and tools and formulas, and I'm struck by the fact that we've done it.

It's not that the ideas aren't appropriate or critical to going forward, but if our objective is to develop neighborhoods and communities, and/or to provide healthy places for people to live, do we do it from the bottom, where we have these conversations about manipulating resources? Or do we do it from that national policy – which I would define as a national vision? Shouldn't we, at least before we leave here today, take a moment and think about what that vision looks like, and take a moment to reflect on how we achieve it in our thinking and not just by manipulating formulas and resources?

I'm reminded that no matter when we apply these, they will work in some places and not in others in a given moment. I work in a community where, a year ago, we could have done X and post significant changes in the market place. But, we do Y and have different results, despite the fact we've done a very efficient job of manipulating all the formulas and resources.

The second point is that I have yet to hear today the concept of older suburbs, and I want to just remind us that one of the major resources for us in America for mixed-income neighborhoods is older suburbs. And in most cases, they are under significant stress.

PETER FALLONS: Hi. I'm Peter Fallons from Worcester, Mass., an old mill town. We do neighborhood work, and today has given very little attention to the notion of neighborhoods.

It invites a whole different set of strategies. In my nine years in this business, we've struggled to create a purchase-rehab product. The banking community doesn't do it. The panels today have obliquely referred to it being the missing piece. That's what we need to stabilize these neighborhoods, especially with a lot of our housing stock being owned by people over 60. Okay? We need a little mini-grant program.

Only 17 percent of Americans or so support more money for affordable housing. If you start talking about kids going to school, and people returning to work, and safety and pride of neighborhoods and competitive advantages, you can nudge that up to 50 or 51 percent, a number Tip O'Neill would still love. Local is good, but local has to get to 51 percent if you're going to win it.

I just think that this group today is at the edge of being arcane. I've got three college degrees. I've been in this field for nine years. I don't know what 90 percent of this conversation is about. It's a level of manipulation of financial formulas that's scary.

MICHAEL PITCHFORD: Maybe we've been talking about projects like they were neighborhoods.

UNIDENTIFIED PARTICIPANT: I'm a houser, and I'm struck by what Janet Falk said, [that] one way to change neighborhoods was to change low-income housing and bring it into a neighborhood, but she doesn't deal with neighborhoods either. And if we are going to do this we really need [to] think it through in a language that is more understandable.

RENÉE GLOVER: I'd like to comment that the reason that the HOPE VI program has received any true acceptance is that it is a neighborhood strategy. One of the things that Egbert talked about was looking at the quality of life infrastructure, because scale is interesting. It works on a positive standpoint, but it also works on a negative standpoint. So if you have something at scale that is of [a negative] influence, it's really the beginning of the downturn, and people run away from blight. At the same time, people run to what they see as an opportunity to capture some of the value of something that's coming back up.

As we talk about this national vision and look at issues, I do think that the neighborhoods are quite important, because in order to determine whether or not you're having success, if you're able to change a blighting influence and attract investment, that's really what gains the 51 percent national acceptance. That's certainly what has made it doable and achievable in Atlanta.

And I'll just add to this. I know there's discussion right now about the HOPE VI program and some notion that maybe it should be gap funding, or maybe it should be the last money in. That would destroy the

effectiveness of the program. What it really has allowed agencies to do is treat what I call residential brownfields, because if you look at the blighting influence – again, in scale. I mean, if you’ve got a four or five, or a thousand – because, generally, once you get going, sometimes it could be 2,000 units.

The blighting influence on that neighborhood and families is as damaging as any environmental damage, except it is coming through the housing. But you’re absolutely right – we really are talking about neighborhood strategies and making strategic investments to reclaim neighborhoods.

JILL KHADDURI: Thank you. I’m Jill Khadduri from ABT Associates, and I’d like to echo what Cushing said about keeping the operating subsidy and the capital subsidy separate when we’re thinking about how to reach our lowest-income families. I’m also echoing the unease that Garth expressed about providing deeper tax-credit subsidies to a smaller number of units. We already have an operating model for serving the lowest-income families in a mixed-income context, and that is the use of either tax credits, or the HOME program, or a combination of both, along with housing vouchers.

Housing vouchers effectively reach families below 30 percent of median income, and they do so to a surprising extent already in both tax-credit developments and Home developments.

This model is working. It’s not necessarily being used in as thoughtful a way as it might be, perhaps not in thinking strategically about which neighborhoods to use it in, and how to make the connections between the housing authority that administers the voucher, the sponsors and owners of the HOME and tax-credit developments. I would strongly suggest that before we think about reinventing programs that try to marry capital and operating subsidies in order to reach the lowest-income families that we build on the, by and large, successful model that we already have in operation.

UNIDENTIFIED PARTICIPANT: The Section 236 program also has mixed income to the extent it does have project-based Section 8, and some market-rate tenants in it. We do have models existing.

UNIDENTIFIED PARTICIPANT: It strikes me that it wasn’t fair to Helen and bring her up here at the very last minute and ask for us to address a national vision. It’s not fair for us to try to do that. But it does strike me, Francie, that it might be something you would want to think about for the next symposium.

# Where Do We Go From Here?

## *Closing Plenary*

*Conrad Egan, Millennial Housing Commission*

CONRAD EGAN: I'd first of all like to thank the Neighborhood Reinvestment Corporation, and particularly its new leader, Ellen Lazar, who, although she may be new to the Neighborhood Reinvestment Corporation, is a seasoned veteran in housing and neighborhood and community-development activities.

I'd also like to acknowledge two of the Millennial Housing Commissioners who are with us, Commissioner Glover and Commissioner Dolbeare. All of my commissioners are wonderful. And I want to particularly thank Renee and Cushing for the contributions that they've made to the report.

Today's format worked very well, and one of the things that came out of it was a sharp realization that we're talking about a tremendous, different range of challenges and opportunities. There is no one or even maybe half a dozen models that fit all of the situations that we'll be dealing with. I hope to come back and touch on that in a moment.

But let me start with maybe a challenging and controversial proposition, and I do hope that Ellen and Francie and the Neighborhood Reinvestment Corporation and NeighborWorks® organization is able to hold such an event next year that will be even better than the two preceding events. But let me issue a challenge to all of us that by the time we get together next year let's have invented a term other than mixed-income housing. Let's take that on as a challenge.

I've been struggling with a metaphor, and it's not going to be a good one, but I think it starts to make the point. Occasionally, I go to a shopping mall where I live in Northern Virginia – it happens to be called Tysons Corner, but it could be Country Club Plaza or Galleria. There's a Payless Shoe Store there that sells two pairs for \$7. You don't have a lot of selection, and you pretty much have to take what they have, but two

pairs for \$7. There's also an I. Magnim store there that sells shoes – maybe for \$700 a pair. When I go to that shopping mall, or center, or whatever you want to call it, I don't say "I'm going to a mixed-income shopping center, honey."

That's the point I'm trying to make. Let's talk about communities and neighborhoods and families, and let's talk about the economies and the vitalities of those neighborhoods and those communities. When I had the privilege of working with Helen Dunlap in one of my previous incarnations, we spent a lot of time figuring out how to describe what we in multi-family FHA are doing, and should do.

And a lot of the proposals were like, "We process things better, you know. We close deals quicker. We know the difference between a D-4 and a D-3." And finally we ended up saying, "You know what we really do? We build better neighborhoods. We build better neighborhoods."

I was struck by how many of the commenters were going in that same direction. And it strikes me that maybe the most important part about this slogan up here is strengthening America's neighborhoods. And, then, of course, "while reaching our lowest-income families."

But it seems that this is what we're really all about. This gives Neighborhood Reinvestment Corporation and all of us who are laboring in these vineyards an opportunity to focus on how we can strengthen and revitalize neighborhoods – from some of the very devastated pernicious places that Renee and Egbert Perry described that have now been changed so significantly, to the new community that's being built on the edge of somewhere. And everywhere else in between, including the older suburbs, as Helen Dunlap pointed out.

It seems that we are going to talk about making a lot of the tools more interchangeable, more fungible, and more flexible. I would hope that we would have a few minutes for comments.

Why shouldn't, for example, public housing authority – let's call it that. Why shouldn't it, as HOPE VI has begun to remind us, be able to be moved from Place X to Place Y as a resource for our lowest-income families so that the sponsors and developers of deals have an additional tool to strengthen the heterogeneity of those communities?

Why shouldn't we have a specific tool that's targeted exclusively at extremely low-income households and that offsets the development costs, or the acquisition rehab costs of those units, up-front? This is one of the reasons why Cushing has been so helpful in bringing it forward, and it's gotten support from

Let's do it right. Let's underwrite it so it's sustainable. Let's do it up-front, and then let the kind of dynamic that Mr. Perry talked about ensure the ongoing sustainability of that development, with that component contained within it that's providing assistance to extremely low-income households.

– Conrad Egan

other commissioners too. You don't have to go back to the well every year thereafter and ask Congress for more money.

Now, as Michael Bodaken pointed out, it costs more up-front, but over the long haul, you take away the appropriation risk. You take away the need to go back to Congress each year and maybe there are some members of Congress who will find some appeal in that proposal.

If the lowest-income families come to those developments that have a modest percentage portion of units that have been able to take advantage of that program with vouchers, that's fine. If they don't come with vouchers, then – and if they want to pay 40 percent of their income, rather than the 70 percent they currently pay – that's fine too.

Maybe we should go back to a pre-Brooke amendment concept where the federal contribution offsets the capital costs and the residents, households and

families pay the operating costs. Obviously, that's going to be impossible for some of the very lowest-income households without additional assistance, but let's not underwrite the deals to be dependent going forward on continued subsidies.

And, again, maybe that will be of some appeal to our friends in Congress. Let's do it right. Let's underwrite it so it's sustainable. Let's do it up-front, and then let the kind of dynamic that Mr. Perry talked about insure the ongoing sustainability of that development, with that component contained within it that's providing assistance to extremely low-income households.

Why shouldn't we be able to do the same thing with project-based Section 8? I think it's somewhat ironic that we can take tenant-based vouchers and convert them to project-based Section 8, but we can't take

project-based Section 8 now and carry it over across town and use it as project-based Section 8.

Pat [Clancy] has been successful after much trial and tribulation in convincing the HUD to do exactly that. I won't describe, Pat, the politics that you used in that process. But what we now have is a precedent, both in Indianapolis and in Pittsburgh, of doing exactly that, which, hopefully, we can expand.

What we're beginning to develop here is exactly the kind of fundability and flexibility, whether it's a project-based voucher, a tenant-based voucher that becomes a project-based voucher, a thrifty voucher or public housing assistance that gets transferred from one part of town to the other. I see Walter Webdale sitting in back there.

Walter [Webdale], who is the former director of the Fairfax County Redevelopment Housing Authority, figured out how to take 25 units out of a 50-unit public housing complex that needed a lot of rehab and



move that resource to 25 town homes that were purchased by the county through its exclusionary zoning program and then bring tax credits back into that 50-unit development. This created a fully rehabbed mixed-income community in Reston, Virginia, and 25 scattered-site public housing units out there which are cheek and jowl with other market-rate units owned by people whose incomes are significantly greater than the residents living there. Why can't we do more of that?

One of the things that I picked up as I listened was that we know how to do this. We can do this. We may have to lose a few fingers and toes and other parts of our anatomy in the process, but we can do this. The problem is resources. We never have enough. The problem is the complexity of the deals. We have many of the people in this room who can help figure our way through those deals.

But what we aren't able to deal with as effectively are the larger forces, which came up in all of the workshops. It's the larger forces that are at work in those neighborhoods which are blighted today, but which in 10 to 15 years hopefully will not be. It's the larger forces at work in the kind of middle-ring suburbs.

I had the privilege yesterday of sitting in on a session here in Chicago of something called the Regional Affordable Housing Roundtable. They were having a presentation from – I think it's called the Metropolis 20/20, which is a collection of high-level business leaders in Chicago who have chosen to dedicate some of their time, talent and resources to housing and economic-development issues. And they were considering a report which said, "Think of Chicago as here and O'Hare up there, and the southern ring suburbs down here. And the people who work up there live down here." And so, naturally, the discussion about the challenge went in the direction of, "Well, how do we get affordable housing up there?"

Two or three people just happened to be from the southern suburbs who said, "We've got a lot of affordable housing in our neighborhoods. What we don't have are employment opportunities. What we don't have are jobs. And, increasingly, we're being bled, the economic resources are being bled away from our communities and our neighborhoods, and they're going up into the, I'll call it the northwest corridor."

It isn't just a housing challenge, obviously. It's also a neighborhood, a community challenge, and sometimes it's a housing issue, or an economic-development and job-development issue. What we're really about in the inner-city areas that we talked about is creating markets. We've got models for that. We've got Centennial Place, we've got other models that many of you carry around in your minds.

The challenge there is designing the deals so you have long-term affordability where neighborhoods, as they become revitalized and reinvigorated, are able to maintain the affordability component.

One thing that Egbert, when asked about the relocates, did not mention is that 40 percent of those units, roughly 360 units, are, I assume, going to remain available for our lowest-income families. And this particular development is right next door to downtown Atlanta. It's in the shadow of Coca-Cola international headquarters and a big Bank of America building. It's right cheek and jowl with Georgia Tech, and many, many other amenities. Right in that neighborhood, virtually forever, we're going to have 360 units of housing available for our lowest-income families. Let's figure out how we're going to build-in long-term affordability up-front.

In some of the other markets we have to use the stealth approach to get units into those neighborhoods. Maybe there should be greater use of tools like inclusionary zoning.

Inclusive zoning kind of wedges into the market forces and says, "If you want to do a subdivision in this area, you've got to set aside a certain number of units at an affordable level, and you have to make them available for purchase by the public housing authority or nonprofits for use as lower-income housing resources."

One of the Commission's proposals applies this concept to rental housing and says that if you want to do a tax-exempt bond finance deal out near Dulles Airport in the Washington, D.C., metropolitan area, for instance, and want to save 150 to 200 basis points off your debt service, you've got to set aside 20 percent of the units, at not more than 80 percent of AMI. And you've got to pledge half of those units available to voucher holders, housing choice voucher holders, on a nondiscriminatory basis, and

you have to be open to the possibility, the opportunity, of accessing and using some of the extremely low-income household resources. And, by the way, those deals do not include, as potentially proposed by the Commission, 4 percent tax credits.

One of the things the Commission is thus trying to do is to add resources to the moderate income end of the spectrum, in addition to the previously described resource aimed exclusively at extremely low-income households. This is not a proposal which is necessarily going to bring down the rents in some markets, but it does provide a wedge into those communities for units which are always going to remain use-restricted for affordable use.

And also we have to remember, these use-restricted units may well become a more valuable affordable resource over a 15 to 20 year horizon. When we first did a deal, maybe the rents are at market, but 15 to 20 years later the rents on those units have been restricted, and a \$100 or more gap may have opened up between the market rents and the rents that are available in the restricted units.

Where do you think the housing-choice-voucher holders of 20 years from now are going to be able to go? They're going to be able to go to those units and continue to provide for the kind of strengthened heterogeneous neighborhoods that we're all about here today.

One of the other very important things that I think came out of this session is a recognition that we need to become more a part of the mainstream. We who labor in the vineyards of affordable housing I think are beginning to learn about allowing interchangeability and fundability, and movability of Section 8 and public housing and other resources. That will enable us to move forward and to become perceived, not as a separate group of high priests and priestesses who know all the secret codes and handshakes, but as part of the mainstream who are able to provide resources, assistance, guidance and counsel to mainstream developers and sponsors who are being encouraged, if not required, to include affordability in their developments.

Francie and I were chatting this morning. She said, "What if every sponsor developer who used federal resources of any sort in their development – maybe

it's only FHA insurance – had to make available – 5 percent of their units for voucher holders? Think of how many units that would open up for housing choice-voucher holders on an across-the-board basis.

That's the kind of federal guideline which some might find too constraining. Maybe if we were to think like that, not only would that increase the support for the housing-choice-voucher program, but it would also, as we go downstream, begin to add more places and opportunities for housing-choice-voucher holders to go.

We have many opportunities before us, one of which includes the project-based public housing proposal, which has been put forward by the administration and will be put forward in some form by the Commission. Things like that are going to enable us to mainstream the resources that we know are vital to ensuring good neighborhoods that reach out to, and include, our lowest-income families.

And I would hope, Francie, that when we get back together again next year – and I wasn't being completely facetious, I hope I was clear about that – let's not talk about mixed-income housing. Let's think of a much better term. It's the best one we got right now, and like they say, when you see it, you know it, or when you hear it, you know it. Let's think about how we describe the challenge before us as one which increases government funding resources that are going to be integrated into neighborhood revitalization that will enable, permit and encourage the kind of positive development that Egbert talked about in which the retail and commercial investors will follow the dollars. And, so hopefully, will good schools, good transportation, and good public safety.

Our job is to also become an integrated part of that particular economic comprehensive strategy and not be stuck over here in a corner somewhere, separate and apart. There are a lot of wonderful things happening. Hopefully, there will be even more proposals put forward that will move us toward that vision.

As we work on this issue, the more we can think about integrating what we do into the bigger world, and changing the rules under which we currently operate to enable us to do that more and more, the more we become a part of mainstream America.



# Speakers' Biographies

## Amy Anthony

Amy S. Anthony is president of Preservation of Affordable Housing (POAH), a national nonprofit dedicated to the long-term ownership and operation of existing affordable-housing projects. POAH owns 19 properties and a management company and is actively engaged in further acquisitions. Anthony is also president of Housing Investments Inc. of Boston, Massachusetts, which focuses on the development and financing of affordable housing – mainly in the Boston area. Housing Investments also carries out related consulting work, with a special focus on the significant changes underway for existing assisted stock. Before joining Housing Investments, Anthony served as a director at Aldrich Eastman Waltch, working on the development of products targeted to public funds and linkages with major secondary-market agencies. Previously, Anthony served as secretary of the Massachusetts Executive Office of Communities and Development. Under Anthony's direction, Massachusetts developed and implemented affordable-housing programs that have received national awards, been used as models for other states and produced more than 25,000 units. Prior to working for the commonwealth, she founded Amy Anthony Associates of Boston and Springfield, a housing consulting-and-development company whose clients included federal and municipal agencies and nonprofit neighborhood groups. Before consulting, Anthony was director of the Housing Allowance Project Inc. of Springfield, a nonprofit regional housing agency.

Anthony has played an active role in the development of national housing policy over many years. She has served on the HUD Transition Team, National Housing Task Force, Fannie Mae's Housing Impact Advisory Council, Freddie Mac's Affordable Housing Advisory Committee, and the Multifamily Housing Institute. She also has served as president of the Council of State Community Affairs Agencies. Anthony is a former board member of the National Equity Fund, Metropolitan Boston Housing Partnership, Massachusetts Housing Partnership, Massachusetts Housing Finance Agency and the Women's Institute for Housing and Economic Development. She is a graduate of Smith College.

## Michael Bodaken

Michael Bodaken serves as president of the National Housing Trust, a national nonprofit organization devoted to the preservation of federally assisted or insured multifamily housing. His knowledge of the HUD insurance-and-subsidy programs, finance, the affordable housing stock, and affordable housing needs have been invaluable to the stakeholders affected by recent dramatic changes in housing policy and funding. Bodaken's efforts have directly led to acquisition-and-rehabilitation financing for more than 4,000 units involving more than \$100 million in financing. As head of NHT/Enterprise Preservation Corporation, he now focuses on the direct purchase of multifamily, affordable-housing properties by a joint venture of the National Housing Trust and The Enterprise Foundation. During his tenure from 1990 to 1993 as the Housing/Community Reinvestment Coordinator for the city of Los Angeles, Bodaken established and "reinvented" the citywide Housing Commission and Production Department. In 1993, the Los Angeles Affordable Housing Commission recognized Bodaken for his work in preserving multifamily affordable housing. He is a member of the advisory board of the Housing Development Reporter, the executive committee of the Washington Area Housing Partnership, the National Housing Conference and the National Leased Housing Association. He is also a convener of the National Preservation Working Group.

## Paul C. Brophy

Paul Brophy is a principal with Brophy & Reilly LLC, a Maryland-based consulting firm specializing in community development and the creation and implementation of strategies to improve the health of central cities. His clients have included Johns Hopkins Medicine, Bank of America, the Goldseker Foundation, the MacArthur Foundation, the University of Chicago, HUD, nonprofit businesses, major financial institutions and other for-profit companies. In 1997 Brophy directed a project for the American Assembly that resulted in a widely read report, *Community Capitalism: Rediscovering the Markets of America's Urban Neighborhoods*.

Brophy has been involved with housing, economic development and neighborhood improvement since 1970 as a practitioner, author and professor. Previously, he was president and then vice chair of The Enterprise Foundation. While in these executive positions, Brophy worked with community groups and local governments around the nation to develop thousands of units of housing for low- and moderate-income families and to improve neighborhoods. He also held positions in the Pittsburgh city government, first as director of the housing department and then as executive director of the Urban Redevelopment Authority where he was responsible for downtown and neighborhood renewal and economic development. Brophy has held adjunct teaching positions at the School of Urban and Public Affairs of Carnegie Mellon University, the Graduate School of Public, International Affairs of University of Pittsburgh, and the School of Public Affairs of the University of Maryland. He has co-authored three books, *A Guide to Careers in Community Development* (2000), *Housing and Local Government* (1982), and *Neighborhood Revitalization: Theory and Practice* (1975), as well as numerous articles in professional journals. He holds a B.A. from LaSalle University and an M.A. in city planning from the University of Pennsylvania.

## Ginger Brown McGuire

Ginger Brown McGuire is president of Green Bridge Development Corporation, a 501(c)(3) organization whose mission is to revitalize communities through new construction and rehabilitation of single- and multifamily residences. McGuire has worked in housing and housing finance for more than 20 years. She was southwest regional director for The Enterprise Foundation. She also served with the Texas General Land Office as director of loan origination for veteran land board programs and as deputy executive director of the Texas Department of Housing and Community Affairs. McGuire previously worked with the law firm of Thacher, Proffitt and Wood in Washington, D.C., the National Association of Home Builders, the U.S. Small Business Administration and the U.S. House of Representatives Committee on Banking Finance and Urban Affairs. She studied Spanish through the State Department's Foreign Service Institute and was a supervisor and board member of the Wright Patman Congressional Federal Credit Union for 15 years. McGuire has served on the National Advisory Council for Fannie Mae and the Network Advisory

Council for the Texas Association of Community Development Corporations, and is actively involved with the Dallas Affordable Housing Coalition. In 2000 she was selected as "Entrepreneur of the Year" by the National Foundation for Women Legislators Inc, the Business Women's Network and the Small Business Administration. She holds a B.A. from George Mason University and pursued graduate studies at George Washington University.

## Kurt Creager

Kurt Creager is chief executive officer of the Vancouver Housing Authority, serving Clark County, Washington – the fastest growing metropolitan county in the Pacific Northwest during the last decade. Through the 1980s, Creager held several positions for Metropolitan King County in Seattle, including manager of planning and community development and chief of housing and economic development. Prior to his position with King County, Creager was a program manager for the Association of Washington Cities, the Washington State Association of Counties, and the Yakima Valley Conference of Governments. Professionally trained as a land-use planner, he also has worked in the private sector representing both public and private clients preparing comprehensive plans, master land-use development plans, and environmental impact statements. Creager is president of the National Association of Housing and Redevelopment Officials (NAHRO) and serves as a board member of the Housing and Development Law Institute, both in Washington, D.C. In Washington state, he also serves on the boards of the Washington Low-Income Housing Congress and Impact Capital, a community development financial institution. He is a longstanding member of the American Planning Association and Urban Land Institute. Creager is a graduate of Harvard University's Kennedy School of Government, where he was a Fannie Mae Fellow, the University of Washington's Cascade Management Institute, and Western Washington University.

## Michael Curran

Michael Curran has served as president and chief executive officer of The Enterprise Social Investment Corporation (ESIC) since 1998. ESIC is a for-profit subsidiary of The Enterprise Foundation, specializing in the financing and development of affordable housing and historic rehabilitation projects. ESIC

has raised more than \$3 billion and manages a portfolio of more than 800 projects and 50,000 units of housing around the country. Curran oversees three business units within ESIC – a syndication business focusing on historic credits and low-income housing tax credit projects; a development company, Enterprise Homes, specializing in for-sale homes and multifamily rental projects; and a lending unit, Enterprise Mortgage Investments, providing fixed-rate, long-term debt financing as a special designated underwriter and servicer for Fannie Mae. Under his leadership, ESIC was significantly restructured, resulting in record levels of productivity and revenue.

Curran held a variety of positions during his 15-year tenure in the real estate investment unit of the Metropolitan Life Insurance Company, including project manager in the Boston regional office, regional manager for the Washington regional office, Mid-Atlantic regional manager and director of mortgage investments in the Mid-Atlantic region. From 1975–1982, Curran practiced law in Louisville, Kentucky, where he was involved in a number of economic-development initiatives. He has served on numerous boards and committees, including the Jubilee Support Foundation and its advisory council, the executive committee of the D.C. District Council of the Urban Land Institute and The International Council of Shopping Centers. Presently, he is a member of the Urban Land Institute, the National Housing Conference board of directors, the National Association of Affordable Housing Lenders board of directors, the Affordable Housing Tax Credit Coalition, the National Multi-Housing Institute, the National Council of State Housing Authorities, the Kentucky Bar Association and the Leadership Washington – Class of 1992. Curran holds a B.A. in political science from Bellarmine College, a J.D. from the University of Louisville School of Law, and an M.P.A. from the John F. Kennedy School of Government of Harvard University,

### **Agustin Dominguez**

Agustin Dominguez was appointed president of Greater Miami Neighborhoods Inc. (GMN) in 1996, having served since 1988 as assistant director and executive director. During his tenure, GMN has grown from serving one county, with seven employees, to operating statewide, with nearly 100 employees in offices in Miami and St. Petersburg. It currently has projects in Miami, Tampa, St. Petersburg, Ocala and Jacksonville, and property management and maintenance companies. As assistant director of

GMN, Dominguez was responsible for coordinating funding proposals to the state of Florida for low-income housing tax credits and subsidized financing that resulted in more than \$300 million in multifamily development. He has more than 25 years of experience in the public and private sectors as a real-estate developer; general contractor; director of a community development corporation, revolving fund, and of management information systems; a neighborhood planner, and community organizer.

Dominguez has lectured on affordable housing at the National Conference of Community Economic Development, the National Trust for Historic Preservation, and The Institute of Real Property Law at the University of Miami Law School. He was a faculty member of the AHOME Affordable Housing Development Training at Miami-Dade Community College from 1991 to 1994. He currently serves on the board of directors of the Florida Housing Coalition, the Housing Committee of the Homeless Trust of Dade County, the Housing Partnership Network, Dade County Partnership for Home Ownership, and Spinal Cord Living Assistant Development, and on the advisory councils for housing impact at Fannie Mae and Freddie Mac. Dominguez holds a B.A. from La Salle College in Philadelphia and pursued graduate studies at Barry University in Miami.

### **Conrad Egan**

Conrad Egan serves as executive director of the Millennial Housing Commission, which was commissioned by the U.S. Congress to recommend ways to support good housing for all Americans. Prior to this position, Egan was director of policy for the National Housing Conference, the nation's oldest affordable housing advocacy organization. From 1993–1996, Mr. Egan was special assistant to the Secretary for Government Sponsored Enterprise Oversight at HUD. In a previous tenure at HUD, he was involved in a variety of community development and housing activities nationally and in the field. His service culminated as director of the Office of Multifamily Housing Management, where he managed all of HUD's multifamily properties nationwide and administered related subsidy programs. Mr. Egan was also executive vice president of the National Housing Partnership (NHP), one of the nation's largest multifamily property owners and managers. He currently serves as chairman of the Redevelopment and Housing Authority in Fairfax County, Virginia.

## Janet Falk

As executive director of the California Housing Partnership Corporation (CHPC) since 1999, Janet Falk specializes in the refinancing of federally assisted projects and the policy issues involved in the preservation of at-risk housing. Falk has had extensive experience in the development and financing of nonprofit housing. Prior to joining CHPC, she was the codirector of Community Economics Inc. for 19 years. Falk also worked as a housing and community development specialist for local government agencies in the Bay Area. Falk has been involved in more than 150 projects as a financial consultant, including new construction, rehabilitation, special-needs housing, mobile home parks, tenant purchase of rental properties, and artists' live/work spaces. She is currently on the board of the California Coalition for Rural Housing and the California Housing Consortium, and is a member of the Housing Advisory Committee for the Little Hoover Commission. She previously served as chair of Housing California, president of the board of the Nonprofit Housing Association of Northern California, and as a member on numerous other advisory boards and working groups, including the California Organized Insurance Network and California Legislature's Housing Task Force. Falk holds a B.A. from Stanford University and an M.A. in city and regional planning from the University of California at Berkeley.

## Henry Flores

Henry Flores is currently acting as the president of the Texas State Affordable Housing Corporation (TSAHC), a quasi-public agency that creates and administers state-wide efforts to promote the public health, safety and welfare through the provision of adequate, safe and sanitary housing for low-income households. Previously, Flores was a partner in Flores Elizondo Investments (FEI), a Texas-based limited liability corporation that developed apartment communities using low-income housing tax credits and provided housing-related consulting services to public, private and nonprofit clients. Prior to starting FEI, Flores served as executive director of the Texas Department of Housing and Community Affairs (TDHCA), having been appointed by Governor Ann Richards in 1993. During his tenure, TDHCA increased its annual operations of programmatic activities and production, redesigned its single-family home-ownership program, and received

national recognition for its efforts to improve housing conditions along the border with the "Outstanding Community Partnership Award" from HUD and a finalist ranking in the "Innovations in American Government Awards" from The Ford Foundation and Harvard University. Prior to his appointment in state government, Flores served in the Housing Authority of Corpus Christi, Texas, as program manager of the Housing and Community Development Division and as executive director.

In 1994, Flores was appointed by the Clinton administration to the board of directors of the Federal Home Loan Bank for the Ninth District, which includes Arkansas, Mississippi, New Mexico, Louisiana and Texas, and he later served two terms as chairman of the board. He was one of the founding members and first president of the National Hispanic Housing Council. In 1995, he received the "Award of Merit" from the Texas State Bar Association and was named one of the "Most Prominent Hispanics" in Texas by *Hispanic Magazine*. In 1996, Flores was selected by the White House to serve as a member of the U.S. Delegation to the United Nations Conference on Human Settlements held in Istanbul, Turkey. He currently serves on various executive boards, including the National Housing Trust, the Texas Housing Finance Corporation, the Austin Housing Authority, and the Southwest Chapter of the National Association of Housing and Redevelopment Officials. Flores holds a B.A. from Yale University and an M.P.A. from Harvard University.

## Katherine Hadley

Governor Jesse Ventura appointed Katherine Hadley as commissioner of the Minnesota Housing Finance Agency in 1999. She was first appointed commissioner by Governor Arne Carlson in 1994. Prior to her appointment as commissioner, she served as the deputy commissioner and director of government affairs. During her years with the Minnesota Housing Finance Agency, Hadley has worked to strengthen the state's efforts to prevent and respond to homelessness, integrate housing and economic development efforts, and increase assistance to underserved households. Before joining the Minnesota Housing Finance Agency, Hadley was a staff attorney with the Legal Services Advocacy Project, where she worked on employment and unemployment compensation, landlord-tenant, juvenile court and welfare issues. Hadley has a B.A. in urban studies from Hampshire College in Amherst, Massachusetts, and a law degree from the University of Minnesota.

## Joseph S. Hagan

Joseph Hagan is president and chief executive officer of the National Equity Fund Inc. (NEF), the nation's largest nonprofit syndicator of low-income housing tax credits. Hagan joined NEF in 2000 after more than 20 years' experience as an investor in and manager of affordable housing development. Prior to joining NEF, he worked at Banc One where he most recently served as director of its Capital Markets Housing and Health Care Finance Group and co-manager of its Low-Income Housing Tax Credit Group. Prior to that, Hagan was chief executive officer for Banc One Community Development Corporation, which he built into one of the largest federally chartered community development corporations in the country. Under his leadership, the Banc One CDC grew from \$17 million to more than \$350 million in assets over a five-year period. Hagan also served as director of rental housing programs for the Ohio Housing Agency during the late '80s and subsequently created the nonprofit Ohio Capital Corporation for Housing, the second-largest state equity fund in the nation. Before that, he managed a local housing authority and nonprofit developer in Ohio.

## Sandra Henriquez

Sandra Henriquez assumed her duties as the administrator and chief executive officer of the Boston Housing Authority in 1996. Henriquez is secretary of public housing for the city of Boston, a cabinet position within Mayor Menino's administration. She previously had served at the Boston Housing Authority in various capacities from 1977 to 1983. In between tours at the Boston Housing Authority, Henriquez worked as a principal of Maloney Properties Inc., a private management firm offering property-management services to resident-controlled and nonprofit-sponsored housing. She also served as director of housing management and tenant services for the Department of Housing and Community Development. Henriquez is a member of various committees and associations, including the New England Baptist Hospital Community Benefits Committee, the Citizens Housing and Planning Association, and the National and Massachusetts Associations of Housing and Redevelopment Officials. She also serves as director of the Council for Large Public Housing Authorities, director of the YWCA of Boston and a trustee of the New England Baptist Hospital. She is also a founding board member of the National Organization of African Americans in Housing. Henriquez received the "Abigail Adams Award"

from the Massachusetts Women's Political Caucus in 1997 and the "Excellence in Public Service Award" from the Rental Housing Association of the Greater Boston Real Estate Board in 2000. She holds a B.A. from Boston University.

## Peter Holsten

Peter Holsten is president of the Holsten Real Estate Group, which includes real-estate development, property management and construction entities. Founded in 1975, the real-estate group began with one, 16-unit apartment building on Chicago's north side. Over time, its growth has yielded more than 3,500 housing units, with total development costs in excess of \$250 million. The development corporation now focuses primarily on large sites with complex finance structures, including extensive participation in the national effort to transform public housing, through redevelopment, to mixed-income housing environments. Believing in compassionate development, Holsten has established a strong concentration on community building, including social services and jobs development. This has given the Holsten Real Estate Group a reputation for impacting community revitalization in ways that promote neighborhood diversity and benefit residents of all backgrounds and incomes. Currently, Holsten is actively involved in numerous civic organizations, including the Edgewater-Uptown Builders Association, the City of Chicago Affordable Housing Task Force, the United Way Community Development Needs Committee, Fannie Mae's Advisory Board and others. Holsten received a B.S. in mechanical engineering from the University of Wisconsin and an M.B.A. from the University of Chicago.

## Beth Hunter

Since 1991, Beth Hunter has served as director of the low-income housing tax credit program at the Michigan State Housing Development Authority. She oversees the administration of approximately \$17 million in tax credits each year, as well as the compliance monitoring of 32,000 tax-credit units, and 29,000 non-tax credit, affordable housing units. Hunter has worked in various housing programs since 1980 at the Michigan State Housing Development Authority. She was a loan officer with the home-improvement program. She also served as director of the neighborhood and homeless grants program, where she was responsible for developing proposals and directing projects for development of



new programs for the authority, and implementing policies and procedures on a state-wide basis for the division that administered state and federal grant programs. Hunter is a graduate of Michigan State University, with a major in urban and metropolitan studies.

## **Wendell L. Johns**

Wendell L. Johns is vice president for multifamily affordable housing at Fannie Mae. He is responsible for maximizing Fannie Mae's debt financings of rental housing specially targeted to low- and moderate-income households and expanding such products to underserved rental markets. He provides strategic direction and administrative oversight to the Multifamily Affordable Debt, which provides permanent debt solutions primarily to apartments that qualify for the federal low-income housing tax credit (LIHTC), and to Public Finance, which includes Fannie Mae's purchase of multifamily and single-family mortgage revenue and housing bonds. Since joining Fannie Mae in 1998, Johns has significantly contributed to the company's production and profitability by having established Fannie Mae as the nation's leading equity provider to the housing tax-credit industry. Mr. Johns serves on the investment committees for LIHTC Equity and Community Development Financial Institutions. He also serves on the boards of many housing and civic organizations, such as the National Housing Conference, the National Chapter of the American Red Cross and the Lab School of Washington. His long-term involvement with affordable housing includes tenures as vice president of Oxford Development Corporation, and a real-estate specialist and certified public accountant with Coopers & Lybrand. Johns has a B.S. from Indiana University and an M.S. in business administration from the University of Notre Dame.

## **Ellen Lazar**

Ellen Lazar was appointed executive director of Neighborhood Reinvestment Corporation in 2000. Prior to this new position, she served as director of the Community Development Financial Institutions (CDFI) Fund. During her time at CDFI, Lazar expanded the CDFI Fund's scope and outreach and strengthened its congressional support. Prior to joining the CDFI Fund, she served as executive director of the National Association of Affordable Housing Lenders (NAAHL), a national membership organization that promotes private investment in affordable

housing to create and preserve sustainable communities. From 1988 to 1995, Lazar was vice president and general counsel of The Enterprise Foundation. She was also assistant general counsel to the National Corporation for Housing Partnerships and served in the Office of General Counsel for HUD. She is a graduate of Queens College of the City University of New York and Indiana University School of Law at Bloomington. Lazar is admitted to practice law in the state of Maryland.

## **Renée Lewis Glover**

Renée Lewis Glover was appointed executive director of the Housing Authority of the City of Atlanta (AHA) in 1994. Prior to that, she had served as chair of AHA's board of commissioners. As executive director, Glover reorganized AHA to improve operations, emphasize customer service, and become a financially viable entity that was no longer dependent on federal subsidies to support her vision. Her vision called for providing excellent, market-competitive, affordable housing through the development of mixed-income, economically viable communities, outsourcing property-management services, and facilitating home ownership, self-sufficiency and economic-independence opportunities for residents. During her tenure, Centennial Place – the first mixed-finance, mixed-income community with public housing as a component in the United States – was completed in 1996. Since then, AHA has closed 18 additional mixed-finance, mixed-income transactions, resulting in 1,133 public housing-eligible apartments, 604 low-income, tax-credit-eligible apartments, and 1,041 market-rate apartments. AHA has become the national model for creating mixed-income, mixed-financed communities and using private-sector principles for public-housing reform.

Prior to AHA, Glover served in Atlanta as counsel with Paul, Hastings, Janofsky & Walker and as partner with Trotter, Smith & Jacobs. She was a partner with Seyfarth, Shaw, Fairweather & Geraldson in New York, which specialized in business transactions and corporate finance. In 2000, she was appointed president of the board of directors of the Council of Large Public Housing Authorities, a member of the National Advisory Council of Fannie Mae and to the Millennial Housing Commission. In 2001, she received numerous awards for her accomplishments. They included induction into the 2001 Women Hall of Fame from the Atlanta Business League, the Georgia Department of Labor Commissioner Michael Thurmond's Distinguished Service

Award, the Atlanta Urban League's Jesse O. Thomas Community Service Award, and the Antioch Urban Ministries' Anchor Award for service in the area of community and economic development. Previous awards include the Distinguished Public Service Award from Morris Brown College in 2000; the Atlanta Business League Women of Influence Award in 1998, 1999 and 2000; the Dan Sweat Community Leadership Award from the Urban Land Institute in 1998; the Atlanta Business League's Catalyst Award in 1996; and many others. Glover received a J.D. from Boston University, an M.A. from Yale University and a B.A. from Fisk University.

## **Patrick Maier**

Patrick Maier is director of the real-estate division of the Housing Opportunities Commission (HOC), which is the housing authority and housing finance agency for Montgomery County, Maryland. He directs the development, acquisition and preservation activities of this public agency, which currently builds or acquires 300 to 400 housing units annually. Prior to this position, Maier was HOC's director of mortgage finance, where he was responsible for single-family and multifamily bond activities. Under his direction, some of HOC's most challenging undertakings were financed, including "The Metropolitan," a 308-unit mixed-income development in Bethesda, Maryland. He also served as the assistant director of development for HOC. Prior to joining HOC, Maier was senior planner in the Montgomery County Department of Housing and Community Development, where he was involved in the adoption of the Montgomery County Housing Policy and worked closely with private and nonprofit providers of affordable housing. He serves as a board member of the Mid-Atlantic Regional Conference of the National Association of Housing and Redevelopment Officials and the Maryland Association of Housing and Redevelopment Agencies. Maier is a graduate of the Institute for Urban Studies at the University of Maryland.

## **Mark S. McDaniel**

Mark S. McDaniel is president of the Michigan Capital Fund for Housing, a nonprofit housing corporation with offices in Lansing and Detroit. He brings more than 25 years of experience in affordable housing, community development, urban planning and market research. He formerly served as vice president and president of a major development company in Michigan, and as director of development for

another state-wide, nonprofit housing corporation. Since the Capital Fund's inception in 1993, McDaniel has raised and committed more than \$200 million in investment equity for affordable housing and has diversified the Capital Fund to provide access to permanent debt financing, construction lending, technical assistance and predevelopment lending. In addition to his professional experience, he also has served on the board of directors of a number of organizations, including the National Association of State and Local Equity Funds (as current president), the Indiana Capital Fund for Housing, the Community Economic Development Association of Michigan, and the Federal Home Loan Bank of Indianapolis Affordable Housing Council (former chairman). McDaniel holds a B.S. in urban planning from Michigan State University.

## **Egbert L.J. Perry**

In 1992 Egbert L.J. Perry founded The Integral Group, LLC ("Integral"), with a thoughtful and deliberate focus on (re)building urban centers and implementing revitalization strategies. Today, Integral is a holding company based in Atlanta with subsidiaries that specialize in real-estate development, construction management, property management and asset management and remain focused on being a premier urban developer by creating value in cities and rebuilding communities. Under Perry's leadership, Integral has developed a reputation as an innovator in the field of urban, infill, mixed-use development, and a number of the company's projects have earned special recognition. In addition to Atlanta and other cities in Georgia, the company is engaged in major urban mixed-use and mixed-income projects in Baltimore, Washington, D.C., Richmond, Memphis, Birmingham and Denver, and continues to be a major player in structuring public-private partnerships and creating financing structures that stimulate growth in metropolitan areas.

Prior to founding Integral, Perry served in several positions at H.J. Russell & Company in Atlanta, including assistant to the president; president of the real estate, construction, property management and construction management operating companies; and president of the overall company. During his 13-year tenure at H.J. Russell & Company, he played a key role in the tremendous growth of the company, as its annual revenues soared from \$10 million to \$173 million. Previously, he worked with a large national contractor in Washington, D.C. Perry is active in a number of civic, corporate and community organiza-

tions, and participates on the boards of the University of Pennsylvania, Atlanta International School, Children's Healthcare of Atlanta, National Housing Conference, The Herndon Foundation and The Trust for Public Land, among others. He holds a B.S. and M.S. in civil engineering from the Towne School of the University of Pennsylvania and a M.B.A. in finance and accounting from the Wharton School of Business of the University of Pennsylvania. In 1990 he was elected as the eleven h graduate to be named to the "Gallery of Distinguished Engineering Alumni" of the University of Pennsylvania's engineering school. Mr. Perry was born in Antigua, West Indies, and migrated to the United States in 1970 to complete his high school education.

### **Jeanne Peterson**

Jeanne Peterson was appointed by State Treasurer Phil Angelides as executive director of California's Tax Credit Allocation Committee in 1999, and has administered both California's federal and state housing-tax-credit programs since then, substantially changing the previous methodology for allocation of the credit. She came to California from the Michigan State Housing Development Authority, where she spent 18 years, first as staff counsel and later as director of legal affairs. In that capacity, she was involved in all aspects of affordable housing lending and administration. She supervised Michigan's housing-tax-credit program from its inception and has been a frequent writer and speaker on affordable-housing issues. Peterson was instrumental in envisioning and creating the Michigan Capital Fund for Housing, Michigan's state-equity fund. She is a board member of the California Housing Consortium and regularly sits on the board of the California Housing Finance Agency for Treasurer Angelides. She holds B.A., M.A. and J.D. degrees.

### **J. Michael Pitchford**

J. Michael Pitchford is a senior vice president and market management executive for community development banking at Bank of America. He is responsible for the bank's national community development and affordable housing lending efforts, which target affordable housing, community-based facilities, and urban redevelopment projects in more than 26 cities in the United States. Pitchford's team of nearly 200 associates provided the financing to produce more than 11,000 units of affordable housing in

2000. Under his direction, Bank of America provides more than \$2 billion in construction and term financing and \$200 million in development equity. He also holds the position of president of the Banc of America Community Development Corporation (CDC), which acquires, builds, rehabilitates and invests in low- and moderate-income housing and commercial real estate in 17 cities in the United States, and has a portfolio of hundreds of affordable for-sale units and 9,479 affordable rental units. Pitchford joined the bank in 1982. Prior to his present position, he served a dozen years as a real estate lender and team leader, managing residential/commercial construction lenders. He serves as president of the National Housing Conference (NHC) and is a member of the board of the National Equity Fund and the advisory board of the Center for Housing Policy and the Urban Land Institute. He has a B.A. and M.A. from Old Dominion University.

### **Saul N. Ramirez, Jr.**

Saul Ramirez brings a great deal of housing and community development experience to his position as executive director at the National Association of Housing and Redevelopment Officials (NAHRO). Before NAHRO, he originated loans at Greystone and Company, a leading financial services and trading company in Bethesda, Maryland, that provides debt-and-equity financing for the development, rehabilitation, acquisition and refinancing of multifamily and other projects. Previously, Ramirez served as deputy secretary and assistant secretary of community planning and development at HUD. Prior to HUD, he was mayor of the city of Laredo from 1990 to 1997, where he used housing and community development programs as tools to encourage major growth and development. Before becoming mayor, he was a city council member. Ramirez also has 20 years of experience as an insurance industry executive and partner in Texas companies and has served as a member of the board on the Texas Municipal League Intergovernment Risk Pool, with more than \$300 million in assets.

### **Garth Rieman**

Garth Rieman has been director for program development at the National Council of State Housing Agencies (NCSHA) since 1993. He helps develop and execute NCSHA's legislative and regulatory agenda on Section 8, HOME, FHA, appropriations and rural housing. Previously, Rieman worked for the U.S.

Senate Housing Subcommittee, the U.S. Department of Housing and Urban Development, the Realtors, and the U.S. Office of Management and Budget. Rieman graduated from Pomona College and received an M.A. in public policy from the John F. Kennedy School of Government at Harvard University.

## David M. Saltzman

David M. Saltzman is deputy commissioner of developer services at the Chicago Department of Housing (DOH). He has been with DOH for seven years and oversees its multifamily loan programs, low-income housing-tax-credit program, multifamily mortgage-revenue-bond program, and single-family-new-construction programs. He also oversees the loan portfolio section and supervises the city's participation in the mark-to-market program. Saltzman previously served as vice president for Merriam/Zuba Ltd., a residential real estate development firm, and was also project development manager for PRIDE, a community development organization based in the Austin community on the west side of Chicago. He holds a B.A. from Duke University, and an M.A. in management from the Kellogg School of Management at Northwestern University.

## Christopher Shea

Christopher Shea is director of special projects and planning for the Housing Authority of the city of Pittsburgh, with responsibility for strategic planning and real estate development. Under his leadership, HACP has pioneered a "neighborhood investment" approach to public housing replacement, through which isolated concentrations of distressed public housing are replaced with mixed-income housing development in existing, stable city neighborhoods. In the past six years, Shea and his staff have closed 16 mixed-income, mixed-finance transactions, representing 1,100 rental and 100 for-sale units. An additional seven transactions, with 1,392 mixed-income units, are funded and programmed for closing over the next five years. Parallel with this development work, Shea and his staff have demolished 4,000 distressed and long-term vacant public housing units. Prior to the housing authority, Shea was deputy city planning director for Pittsburgh, with responsibility for housing and economic development planning.

## Robert Spangler

Robert Spangler, a nationally recognized leader in structuring multifamily housing revenue bonds, serves as co-head of RBC Dain Rauscher's housing finance group and manager of the firm's eastern region. He has direct management responsibilities for the firm's public-finance efforts in Florida and the Northeast as well as directing its multifamily housing finance group nationwide. In the past five years, Spangler has served as senior managing underwriter or financial advisor on more than 90 tax-exempt and taxable financings, totaling more than \$1.1 billion nationwide. He was formerly with First Union Capital Markets, where he was a senior vice president and manager of the housing finance department. Spangler founded First Union Capital Markets' (formerly Wheat First Butcher Singer) housing finance practice in 1992. Prior to Wheat First, he was a member of the housing finance department of Merrill Lynch & Co. Spangler received an M.A. in management from the Kellogg School of Management at Northwestern University and an B.A. from Stanford University.

## James G. Stockard Jr.

James Stockard is curator of the Loeb Fellowship at the Harvard Design School. He directs the nation's only program of independent study for mid-career practitioners in fields related to the built and natural environment. He also teaches housing courses at the Design School and serves as the principal investigator for a major research effort on the operating costs of public housing being undertaken for the U.S. Congress. Prior to joining the Design School in 1997, Mr. Stockard was a founding principal in Stockard & Engler & Brigham (SEB). SEB consulted with public agencies, nonprofits and community-based organizations on affordable housing and neighborhood development. Stockard's special interests were in housing development, property management, social-service delivery, and public housing administration. In 1993-94, he served as the court-appointed special master of the Washington, D.C., Housing Authority. For the past decade, he has served as a trainer and teacher in the housing field and a facilitator for strategic planning sessions for a wide range of organizations in the housing and community development arena.

Stockard is the author of *Managing Affordable Housing: A Training Curriculum in Asset and*

*Property Management* and the epilogue to the book *Future Trends in Urban Public Housing*, entitled “Public Housing – the Next 60 Years.” He is a past president of the Citizens Housing and Planning Association, a founding trustee of the Cambridge Affordable Housing Trust, and has served as a commissioner of the Cambridge Housing Authority for the past 28 years, including six terms as chairperson. Stockard holds a B.A. in architecture from Princeton University and an M.A. in city planning from the Harvard Design School. He was a Rockefeller Fellow at Union Theological Seminary and a Loeb Fellow at the Harvard Design School.

## **Christopher E. Tawa**

Christopher Tawa joined Lend Lease Real Estate Investments’ (REI) mortgage capital division in November 2000. He is responsible for multifamily affordable housing lending and other specialized debt products, business relationships and loan operations, using Fannie Mae, Freddie Mac and FHA programs, from the company’s office in Washington, D.C. Prior to joining Lend Lease REI, Tawa was senior managing director for affordable housing finance for Banc One Capital Funding. Previously, he was the national director of multifamily targeted affordable housing at Fannie Mae, where he managed the development and implementation of Fannie Mae’s national products for financing low-income rental properties and was responsible for helping meet annual production and affordable housing goals. During his tenure at Fannie Mae, the company’s affordable housing loan production tripled from \$250 million in 1995 to more than \$750 million in 1997. Prior to Fannie Mae, Tawa was with the Maryland Department of Housing and Community Development and the Massachusetts Executive Office of Communities and Development. He has a B.A. from the University of Massachusetts at Boston, a J.D. from Northeastern University School of Law and an M.P.A. from the John F. Kennedy School of Government of Harvard University.

## **Lynn Wehrli**

Lynn Wehrli has worked as director of housing development for the New Mexico Mortgage Finance Authority since 1991. She serves as lead underwriter and develops and operates all the agency’s multifamily and single-family development programs. These include risk sharing, low-income housing tax credit, HOME/rental and single-family development, and

M2M. In addition, she manages the agency’s housing trust fund and other specialized programs, including Native American housing initiatives. Previously, Wehrli worked as director of equity finance for The Community Builders in Boston, as a loan officer at the Community Preservation Corporation in New York City, and as executive director of a community organization in East Haven, Connecticut. Wehrli occasionally teaches housing finance and development courses at the University of New Mexico’s school of architecture and planning. She also serves on the board of the Escuela del Sol Montessori School and the city of Albuquerque’s Affordable Housing Committee. She holds a B.A. from Cornell University, an M.A. in city planning from MIT and an M.B.A. from the Yale School of Management.

## **Mark F. Welch**

Mark Welch is director of Colorado Housing and Financing Authority’s rental finance division, a position he has held since joining CHFA in 2001. He is responsible for CHFA’s lending programs for multifamily projects, including new construction, acquisition-rehabilitation and preservation of existing affordable housing. He is also responsible for the federal and Colorado state low-income housing tax-credit programs. Prior to joining CHFA, Welch was the director of housing development for Mercy Housing Inc., a national private nonprofit development and property management organization, with a property portfolio of nearly 10,000 units as of 2000. During his seven years at Mercy, he also served as director of research and development and senior technical-assistance specialist. Prior to Mercy Housing, Welch worked as a project manager at Colorado Rural Housing Development Corporation, a NeighborWorks® organization, and at Fifth City Housing Enterprises in Chicago. He also spent a total of six years on international assignments in community- and village-development projects for the Institute of Cultural Affairs in Malaysia and Brazil. Welch has served on numerous professional and civic associations, including Colorado Housing NOW, as president, and the Colorado Affordable Housing Partnership, as vice president. He holds a B.A. from the College of St. Thomas in Minnesota and an M.B.A. from the University of Denver.

## **Charles S. Wilkins, Jr.**

Charles Wilkins is a consultant who works with owners, managers, lenders and regulatory agencies

regarding affordable-housing policy, finance, asset management and property management. He is a financial advisor to the U.S. Department of Housing and Development's Mark to Market program, and is a member of the Public Housing Operating Cost Study team. He is the author of *Shelter From The Storm: Successful Market Conversions of Regulated Housing*, which explores the public policy, affordability, operational and financial consequences of introducing more market forces into affordable housing. As senior executive with the National Housing Partnership (NHP), Mr. Wilkins was responsible for asset management of NHP's 60,000 units of affordable housing and for its relationships with Congress and the U.S. Department of Housing and Urban Development (HUD). He teaches asset management to government housing professionals through the University of Maryland. Wilkins was a member of the Senate Banking Committee working group on Mark to Market and president of the National Affordable Housing Management Association.

# Neighborhood Reinvestment Corporation, the NeighborWorks® Network and the NeighborWorks® Multifamily Initiative

The Neighborhood Reinvestment Corporation was established by an act of Congress in 1978 (Public Law 95-557). A primary objective of the Corporation is to increase the capacity of local community-based organizations to revitalize their communities, particularly by expanding and improving housing.

Currently there are more than 225 independent, locally led nonprofit community development corporations that comprise the NeighborWorks® network. A key to the success of NeighborWorks® organizations is their partnership-building approach to neighborhood revitalization, uniting residents, private-sector businesses, foundations and local and state governments.

Launched in 1999, the NeighborWorks® Multifamily Initiative is the collaborative portfolio management program for NeighborWorks® organizations whose primary mission is development, ownership or management of affordable multifamily housing. Currently, 43 NeighborWorks® organizations, operating in 30 states and Puerto Rico, belong to the Multifamily Initiative. Together, they own more than 20,000 affordable housing units.

## **The goals of the Multifamily Initiative are to:**

- A. Develop and preserve 10,000 units between 1999 – 2005;
- B. Attract \$600 million in investment in these affordable properties;
- C. Strengthen portfolio performance and asset management systems of members;
- D. Expand learning centers, thus supporting personal asset building by residents of multifamily properties, and
- E. Increase multifamily resident leadership in member organizations.

As a capital partner, the Multifamily Initiative has formed the Neighborhood Capital Corporation (NCC). NCC speeds access to capital designed to enable the preservation and development of affordable multifamily housing. NCC provides predevelopment loans of up to \$150,000 and interim acquisition loans for the “top” 10 to 25 percent of value for a property to be acquired for preservation or development. Initially capitalized by Neighborhood Reinvestment, the NCC is now building its capital base through both direct investment and through agreements with lenders who would like to participate in this type of lending. ■

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